

BABSON CAPITAL PARTICIPATION INVESTORS

Form N-30D

May 30, 2013

---

**Adviser**

Babson Capital Management LLC  
1500 Main Street, P.O. Box 15189  
Springfield, Massachusetts 01115-5189

**Transfer Agent & Registrar**

DST Systems, Inc.  
P.O. Box 219086  
Kansas City, MO 64121-9086  
1-800-647-7374

**Independent Registered Public Accounting Firm**

KPMG LLP  
Boston, Massachusetts 02110

**Internet Website**

[www.babsoncapital.com/mpv](http://www.babsoncapital.com/mpv)

**Counsel to the Trust**

Ropes & Gray LLP  
Boston, Massachusetts 02110

Babson Capital Participation Investors  
c/o Babson Capital Management LLC  
1500 Main Street, Suite 2200  
Springfield, Massachusetts 01115  
(413) 226-1516

**Custodian**

State Street Bank and Trust Company  
Boston, Massachusetts 02116

---

**Investment Objective and Policy**

Babson Capital Participation Investors (the “Trust”) is a closed-end management investment company, first offered to the public in 1988, whose shares are traded on the New York Stock Exchange under the trading symbol “MPV”. The Trust’s share price can be found in the financial section of most newspapers under either the New York Stock Exchange listings or Closed-End Fund Listings.

The Trust’s investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust’s principal investments are privately placed, below-investment grade, long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. At least half of these investments normally include equity features such as common stock, warrants, conversion rights, or other equity features that provide the Trust with the opportunity to realize capital gains. The Trust will also invest in publicly traded debt securities (including high yield securities), again with an emphasis on those with equity features, and in convertible preferred stocks and, subject to certain limitations, readily marketable equity securities. Below-investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay principal. In addition, the Trust may temporarily invest in high quality, readily

**Form N-Q**

The Trust files its complete schedule of portfolio holdings with the U.S. Securities and Exchange Commission (“SEC”) for the first and third quarters of each fiscal year on Form N-Q. This information is available (i) on the SEC’s website at <http://www.sec.gov>; and (ii) at the SEC’s Public Reference Room in Washington, DC (which information on their operation may be obtained by calling 1-800-SEC-0330). A complete schedule of portfolio holdings as of each quarter-end is available upon request by calling, toll-free, 866-399-1516.

**Proxy Voting Policies & Procedures; Proxy Voting Record**

The Trustees of the Trust have delegated proxy voting responsibilities relating to the voting of securities held by the Trust to Babson Capital. A description of Babson Capital’s proxy voting policies and procedures is available (1) without charge, upon request, by calling, toll-free 866-399-1516; (2) on the Trust’s website: <http://www.babsoncapital.com/mpv>; and (3) on the SEC’s website at <http://www.sec.gov>. Information regarding how the Trust voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) on the Trust’s website: <http://www.babsoncapital.com/mpv>; and (2) on the SEC’s website at <http://www.sec.gov>.

marketable securities.

Babson Capital Management LLC (“Babson Capital”) manages the Trust on a total return basis. The Trust distributes substantially all of its net income to shareholders each year. Accordingly, the Trust pays dividends to shareholders in January, May, August, and November. All registered shareholders are automatically enrolled in the Dividend Reinvestment and Cash Purchase Plan unless cash distributions are requested.

---

Babson Capital Participation Investors

TO OUR SHAREHOLDERS

April 30, 2013

We are pleased to present the March 31, 2013 Quarterly Report of Babson Capital Participation Investors (the "Trust").

The Board of Trustees declared a quarterly dividend of 27 cents per share, payable on May 10, 2013 to shareholders of record on April 29, 2013. The Trust paid a 27 cent per share dividend for the preceding quarter. The Trust earned 26 cents per share of net investment income for the first quarter of 2013, compared to 31 cents per share in the previous quarter, of which approximately \$0.05 per share represented income due to nonrecurring items.

During the first quarter, the net assets of the Trust increased to \$133,137,561 or \$13.05 per share compared to \$127,874,125 or \$12.56 per share on December 31, 2012. This translates into a 3.9% total return for the quarter, based on the change in the Trust's net assets assuming the reinvestment of all dividends. Longer term, the Trust returned 17.8%, 15.6%, 9.8%, and 14.2% for the 1-, 3-, 5-, and 10-year time periods, respectively, based on the change in the Trust's net assets assuming the reinvestment of all dividends.

The Trust's share price increased 3.2% during the quarter, from \$13.91 per share as of December 31, 2012 to \$14.35 per share as of March 31, 2013. The Trust's market price of \$14.35 per share equates to a 10.0% premium over the March 31, 2013 net asset value per share of \$13.05. The Trust's average quarter-end premium for the 3, 5 and 10-year periods was 18.1%, 10.1% and 10.6%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, increased 12.4% for the quarter. U.S. fixed income markets, as approximated by the Barclays Capital U.S. Corporate High Yield Index, increased 2.9% for the quarter.

The Trust closed two new private placement investments and one "follow-on" investment in an existing portfolio company during the first quarter. The two new investments were in gloProfessional Holdings, Inc. and Signature Systems Holdings Company, while the follow-on investment was in Synteract Holdings Corporation. A brief description of these investments can be found in the Consolidated Schedule of Investments. The total amount invested by the Trust in these transactions was \$2,419,000.

After a very busy fourth quarter of 2012, U.S. middle market buyout activity in the first quarter of 2013 was sluggish at best. Many market participants do expect deal flow to improve throughout the rest of the year as there continues to be an abundance of debt and equity capital available to be invested. We saw a significant increase in deal flow in the latter part of the first quarter which has continued into the second quarter. As a result, we expect the level of new investment activity in the second quarter to exceed the first quarter's pace.

The condition of the Trust's existing portfolio remained strong through the first quarter. We are pleased that sales and earnings for the Trust's portfolio as a whole continued their upward momentum. We had two companies exit the portfolio in the first quarter. Both companies, EXC Acquisition Corporation and HGGC Citadel Plastic Holdings, were successful investments for the Trust. We continue to have a healthy backlog of companies in the process of being sold and expect 2013 to be a good year for realizations. On the negative side of the ledger, however, we saw an unprecedented level of refinancing activity in the portfolio in the first quarter of 2013 and continuing into the second quarter. These transactions, in which the debt instruments held by the Trust were fully or partially prepaid, are being driven by companies seeking to take advantage of low interest rates and plentiful credit. We had eight portfolio companies fully or partially prepay the Trust's debt holdings in the first quarter, with another three companies prepaying their debt already in the second quarter. As mentioned in prior reports, the loss of these income-producing investments, unless replaced by new investments, could adversely affect the Trust's ability to sustain its dividend level

in the quarters ahead.

(Continued)

1

---

At the Trust's Annual Meeting on April 19, 2013, shareholders approved the conversion of the Trust's investment objective from fundamental to non-fundamental. This change increases the investment flexibility of the Trust by permitting the Board of Trustees to react to changing market conditions and other developments by modifying the Trust's investment objective without shareholder approval, thereby avoiding the delay and expense associated with a proxy solicitation.

Lastly, on behalf of the Trust's shareholders, the members of the Board of Trustees, and the officers of the Trust, I would like to thank Donald Benson and Donald Glickman for their many years of service to the Trust as Trustees. Don Benson was elected as a Trustee in 1988, while Don Glickman was elected as a Trustee in 1992. The April 2013 meeting was their last meeting as Trustees. Both of them have provided the Trust with invaluable insight and guidance, and have served our shareholders extremely well throughout their tenure as Trustees. We will miss both of them and their contributions to the Trust.

Thank you for your continued interest in and support of Babson Capital Participation Investors.

Sincerely,

Michael L. Klofas  
President

\* Based on market value of total investments (including cash)

Cautionary Notice: Certain statements contained in this report may be "forward looking" statements. Investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made and which reflect management's current estimates, projections, expectations or beliefs, and which are subject to risks and uncertainties that may cause actual results to differ materially. These statements are subject to change at any time based upon economic, market or other conditions and may not be relied upon as investment advice or an indication of the Trust's trading intent. References to specific securities are not recommendations of such securities, and may not be representative of the Trust's current or future investments. We undertake no obligation to publicly update forward looking statements, whether as a result of new information, future events, or otherwise.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

## Assets:

## Investments

(See Consolidated Schedule of Investments)

|   |                 |
|---|-----------------|
| Corporate restricted securities at fair value<br>(Cost - \$103,262,162) | \$ 97,006,412   |
| Corporate restricted securities at market value<br>(Cost - \$6,635,709) | 6,964,781       |
| Corporate public securities at market value<br>(Cost - \$25,982,751)    | 28,010,172      |
| Short-term securities at amortized cost                                 | 10,499,296      |
| Total investments (Cost - \$146,379,918)                                | 142,480,661     |
| Cash  | 6,660,446       |
| Interest receivable   | 2,078,300       |
| Other assets  | 23,829          |
| <br>Total assets  | <br>151,243,236 |

## Liabilities:

|                                   |                |
|-----------------------------------|----------------|
| Note payable                      | 15,000,000     |
| Payable for investments purchased | 1,870,880      |
| Deferred tax liability            | 604,376        |
| Investment advisory fee payable   | 299,560        |
| Tax payable                       | 149,095        |
| Interest payable                  | 27,267         |
| Accrued expenses                  | 154,497        |
| <br>Total liabilities             | <br>18,105,675 |

|                  |                |
|------------------|----------------|
| Total net assets | \$ 133,137,561 |
|------------------|----------------|

## Net Assets:

|  |                    |
|--|--------------------|
| Common shares, par value \$.01 per share               | \$ 101,991         |
| Additional paid-in capital                             | 95,178,060         |
| Retained net realized gain on investments, prior years | 33,733,164         |
| Undistributed net investment income                    | 4,190,123          |
| Accumulated net realized gain on investments           | 4,437,856          |
| Net unrealized depreciation of investments             | (4,503,633 )       |
| <br>Total net assets                                   | <br>\$ 133,137,561 |

|  |            |
|--|------------|
| Common shares issued and outstanding (14,785,750 authorized) | 10,199,121 |
|--|------------|

|                           |          |
|---------------------------|----------|
| Net asset value per share | \$ 13.05 |
|---------------------------|----------|

See Notes to Consolidated Financial Statements

3

---



CONSOLIDATED STATEMENT OF OPERATIONS

For the three months ended March 31, 2013

(Unaudited)

|   |             |
|---|-------------|
| Investment Income:  |             |
| Interest  | \$3,256,911 |
| Other   | 68,473      |
| Total investment income   | 3,325,384   |
| Expenses:   |             |
| Investment advisory fees  | 299,560     |
| Interest  | 153,375     |
| Trustees' fees and expenses                                       | 84,000      |
| Professional fees   | 55,200      |
| Reports to shareholders   | 22,500      |
| Custodian fees  | 7,500       |
| Other   | 6,250       |
| Total expenses  | 628,385     |
| Investment income - net   | 2,696,999   |
| Net realized and unrealized gain on investments:                  |             |
| Net realized gain on investments before taxes                     | 761,148     |
| Income tax expense  | (1,572 )    |
| Net realized gain on investments after taxes                      | 759,576     |
| Net change in unrealized depreciation of investments before taxes | 1,728,065   |
| Net change in deferred income tax expense                         | (136,742 )  |
| Net change in unrealized depreciation of investments after taxes  | 1,591,323   |
| Net gain on investments   | 2,350,899   |
| Net increase in net assets resulting from operations              | \$5,047,898 |

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOW

Babson Capital Participation Investors

For the three months ended March 31, 2013

(Unaudited)

Net increase in cash:

Cash flows from operating activities:

|   |                |
|---|----------------|
| Purchases/Proceeds/Maturities from short-term portfolio securities, net | \$(2,995,285 ) |
| Purchases of portfolio securities                                       | (3,060,669 )   |
| Proceeds from disposition of portfolio securities                       | 10,830,711     |
| Interest, dividends and other income received                           | 2,397,452      |
| Interest expense paid   | (153,375 )     |
| Operating expenses paid   | (457,465 )     |
| Income taxes paid   | (918,072 )     |
| Net cash provided by operating activities                               | 5,643,297      |

Cash flows from financing activities:

|   |              |
|---|--------------|
| Cash dividends paid from net investment income          | (2,749,477 ) |
| Receipts for shares issued on reinvestment of dividends | 215,538      |
| Net cash used for financing activities                  | (2,533,939 ) |

Net increase in cash 3,109,358Cash - beginning of year 3,551,088Cash - end of period \$6,660,446

Reconciliation of net increase in net assets to net cash provided by operating activities:

|  |             |
|--|-------------|
| Net increase in net assets resulting from operations | \$5,047,898 |
| Decrease in investments                              | 390,173     |
| Increase in interest receivable                      | (946,426 )  |
| Decrease in other assets                             | 42,985      |
| Increase in payable for investments purchased        | 1,870,880   |
| Increase in deferred tax liability                   | 136,742     |
| Increase in investment advisory fee payable          | 11,843      |
| Decrease in tax payable                              | (916,500 )  |
| Increase in accrued expenses                         | 5,702       |
| Total adjustments to net assets from operations      | 595,399     |
| Net cash provided by operating activities            | \$5,643,297 |

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

|   | For the three<br>months ended<br>03/31/2013<br>(Unaudited) | For the<br>year ended<br>12/31/2012 |
|---|--|-------------------------------------|
| Increase in net assets:   |  |                                     |
| Operations:   |  |                                     |
| Investment income - net   | \$ 2,696,999   | \$ 10,965,123                       |
| Net realized gain on investments after taxes  | 759,576  | 2,488,796                           |
| Net change in unrealized depreciation of investments after taxes  | 1,591,323  | 4,059,101                           |
| Net increase in net assets resulting from operations  | 5,047,898  | 17,513,020                          |
| Increase from common shares issued on reinvestment of dividends   |  |                                     |
| Common shares issued (2013 - 15,872; 2012 - 71,363)   | 215,538  | 1,013,772                           |
| Dividends to shareholders from:   |  |                                     |
| Net investment income (2013 - \$0.00 per share; 2012 - \$1.04 per share)  | -  | (10,584,312 )                       |
| Net realized gains (2013 - \$0.00 per share; 2012 - \$0.04 per share)   | -  | (388,021 )                          |
| Total increase in net assets  | 5,263,436  | 7,554,459                           |
| Net assets, beginning of year   | 127,874,125  | 120,319,666                         |
| Net assets, end of period/year (including undistributed net investment income of \$4,190,123 and \$1,493,124, respectively) | \$ 133,137,561   | \$ 127,874,125                      |

See Notes to Consolidated Financial Statements

CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

Babson Capital Participation Investors

Selected data for each share of beneficial interest outstanding:

|   | For the<br>three<br>months<br>ended<br>03/31/2013<br>(Unaudited) | For the years ended December 31, |           |           |           |           |  |
|---|--|----------------------------------|-----------|-----------|-----------|-----------|--|
|   |  | 2012                             | 2011      | 2010      | 2009      | 2008      |  |
| Net asset value:  |  |                                  |           |           |           |           |  |
| Beginning of year   | \$ 12.56   | \$ 11.90                         | \$ 11.89  | \$ 10.91  | \$ 11.10  | \$ 12.84  |  |
| Net investment income (a)   | 0.26   | 1.08                             | 1.14      | 1.02      | 0.94      | 1.08      |  |
| Net realized and<br>unrealized gain (loss) on<br>investments                    | 0.23   | 0.64                             | 0.08      | 0.95      | (0.13 )   | (1.82 )   |  |
| Total from investment<br>operations   | 0.49   | 1.72                             | 1.22      | 1.97      | (0.81 )   | 0.74      |  |
| Dividends from net<br>investment income to<br>common shareholders               | -  | (1.04 )                          | (1.23 )   | (1.00 )   | (1.00 )   | (1.00 )   |  |
| Dividends from net<br>realized gain on<br>investments to<br>common shareholders | -  | (0.04 )                          | (0.00 )   | (b) -     | -         | -         |  |
| Increase from dividends<br>reinvested   | -  | 0.02                             | 0.02      | 0.01      | 0.00      | 0.00      |  |
| Total dividends   | -  | (1.06 )                          | (1.21 )   | (0.99 )   | (1.00 )   | (1.00 )   |  |
| Net asset value: End of<br>period/year  | \$ 13.05   | \$ 12.56                         | \$ 11.90  | \$ 11.89  | \$ 10.91  | \$ 11.10  |  |
| Per share market value:<br>End of period/year                                   | \$ 14.35   | \$ 13.91                         | \$ 15.85  | \$ 13.88  | \$ 12.20  | \$ 9.05   |  |
| Total investment return   |  |                                  |           |           |           |           |  |
| Net asset value (c)   | 3.90 %   | 15.89 %                          | 10.56 %   | 18.71 %   | 7.60 %    | (6.01 %)  |  |
| Market value (c)  | 3.16 %   | (4.54 %)                         | 24.16 %   | 22.94 %   | 40.86 %   | (25.36 %) |  |
| Net assets (in millions):   |  |                                  |           |           |           |           |  |
| End of period/year  | \$ 133.14  | \$ 127.87                        | \$ 120.32 | \$ 119.54 | \$ 108.93 | \$ 110.18 |  |
| Ratio of operating<br>expenses to average net<br>assets                         | 1.48 %   | (e) 1.51 %                       | 1.42 %    | 1.46 %    | 1.41 %    | 1.33 %    |  |
| Ratio of interest expense<br>to average net assets                              | 0.48 %   | (e) 0.49 %                       | 0.56 %    | 0.61 %    | 0.63 %    | 0.58 %    |  |
| Ratio of income tax<br>expense to average net<br>assets (d)                     | 0.00 %   | (e) 0.83 %                       | 0.20 %    | 0.46 %    | 0.00 %    | 0.00 %    |  |
| Ratio of net expenses to<br>average net assets                                  | 1.97 %   | (e) 2.83 %                       | 2.18 %    | 2.53 %    | 2.04 %    | 1.91 %    |  |
| Ratio of net investment<br>income to average net<br>assets                      | 8.42 %   | (e) 8.82 %                       | 9.33 %    | 8.96 %    | 8.55 %    | 8.74 %    |  |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Portfolio turnover            4            %        34            %        21            %        27            %        23            %        32            %

(a) Calculated using average shares.

(b) Rounds to less than \$0.01 per share.

(c) Net asset value return represents portfolio returns based on change in the Trust's net asset value assuming the reinvestment of all dividends and distributions which differs from the total investment return based on the Trust's market value due to the difference between the Trust's net asset value and the market value of its shares outstanding; past performance is no guarantee of future results.

(d) As additional information, this ratio is included to reflect the taxes paid on retained long-term gains. These taxes paid are netted against realized capital gains in the Statement of Operations. The taxes paid are treated as deemed distributions and a credit for the taxes paid is passed on to shareholders.

(e) Annualized

Senior borrowings:

|  |         |         |         |          |          |          |
|--|---------|---------|---------|----------|----------|----------|
| Total principal amount (in millions)       | \$15    | \$15    | \$15    | \$12     | \$12     | \$12     |
| Asset coverage per \$1,000 of indebtedness | \$9,876 | \$9,525 | \$9,021 | \$10,962 | \$10,077 | \$10.181 |

See Notes to Consolidated Financial Statements

## CONSOLIDATED SCHEDULE OF INVESTMENTS

Babson Capital Participation Investors

March 31, 2013

(Unaudited)

|  | Principal<br>Amount,<br>Shares,<br>Units or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost        | Fair Value  |
|--|--|---------------------|-------------|-------------|
| Corporate Restricted Securities - 78.09%: (A)  |  |                     |             |             |
| Private Placement Investments - 72.86%   |  |                     |             |             |
| 1492 Acquisition LLC   |  |                     |             |             |
| A leading producer of premium Italian cured meats and deli meats in the U.S.   |  |                     |             |             |
| 14% Senior Subordinated Note due 2019  | \$1,146,677  | 10/17/12            | \$1,124,848 | \$1,127,435 |
| Limited Liability Company Unit Class A Common (B)  | 11,364 uts.  | 10/17/12            | 11,364      | 10,873      |
| Limited Liability Company Unit Class A Preferred (B)   | 102 uts.   | 10/17/12            | 102,270     | 103,974     |
|  |  |                     | 1,238,482   | 1,242,282   |
| A E Company, Inc.  |  |                     |             |             |
| A designer and manufacturer of machined parts and assembly structures for the commercial and military aerospace industries.  |  |                     |             |             |
|  | 184,615  |                     |             |             |
| Common Stock (B)   | shs.   | 11/10/09            | 184,615     | 403,583     |
| Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)   | 92,308 shs.  | 11/10/09            | 68,566      | 201,793     |
|  |  |                     | 253,181     | 605,376     |
| A H C Holding Company, Inc.  |  |                     |             |             |
| A designer and manufacturer of boilers and water heaters for the commercial sector.  |  |                     |             |             |
| Limited Partnership Interest (B)   | 12.26% int.  | 11/21/07            | 119,009     | 150,975     |
| A S C Group, Inc.  |  |                     |             |             |
| A designer and manufacturer of high reliability encryption equipment, communications products, computing systems and electronic components primarily for the military and aerospace sectors. |  |                     |             |             |
| Limited Liability Company Unit Class A (B)   | 2,186 uts.   | *                   | 78,340      | 87,388      |
| Limited Liability Company Unit Class B (B)   | 1,479 uts.   | 10/09/09            | 52,999      | 59,125      |
| * 10/09/09 and 10/27/10.   |  |                     | 131,339     | 146,513     |
| A W X Holdings Corporation   |  |                     |             |             |
| A provider of aerial equipment rental, sales and repair services to non-residential construction and maintenance contractors operating in the state of Indiana.                              |  |                     |             |             |
| 10.5% Senior Secured Term Note due 2014 (D)  | \$420,000  | 05/15/08            | 413,944     | 315,000     |
| 13% Senior Subordinated Note due 2015 (D)  | \$420,000  | 05/15/08            | 384,627     | -           |
| Common Stock (B)   | 60,000 shs.  | 05/15/08            | 60,000      | -           |
| Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)   | 21,099 shs.  | 05/15/08            | 35,654      | -           |
|  |  |                     | 894,225     | 315,000     |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

ABC Industries, Inc.

A manufacturer of mine and tunneling ventilation products in the U.S.

|   |              |          |         |         |
|---|--------------|----------|---------|---------|
| 13% Senior Subordinated Note due 2019   | \$500,000    | 08/01/12 | 450,515 | 495,961 |
| Preferred Stock Series A (B)  | 125,000 shs. | 08/01/12 | 125,000 | 112,785 |
| Warrant, exercisable until 2022, to purchase<br>common stock at \$.01 per share (B) | 22,414 shs.  | 08/01/12 | 42,446  | -       |
|   |              |          | 617,961 | 608,746 |

---

8

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost      | Fair Value |
|--|---|------------------|-----------|------------|
| <b>ACP Cascade Holdings LLC</b>  |   |                  |           |            |
| A manufacturer and distributor of vinyl windows and patio doors throughout the northwestern United States.           |   |                  |           |            |
| Limited Liability Company Unit Class B (B)   | 32 uts.   | 11/09/12         | \$-       | \$-        |
| <b>Advanced Manufacturing Enterprises LLC</b>  |   |                  |           |            |
| A designer and manufacturer of large, custom gearing products for a number of critical customer applications.        |   |                  |           |            |
| 14% Senior Subordinated Note due 2018  | \$1,134,615   | 12/07/12         | 1,118,177 | 1,120,653  |
| Limited Liability Company Unit (B)   | 1,154 uts.  | 12/07/12         | 115,385   | 87,487     |
|  |   |                  | 1,233,562 | 1,208,140  |
| <b>Advanced Technologies Holdings</b>  |   |                  |           |            |
| A provider of factory maintenance services to industrial companies.  |   |                  |           |            |
| Preferred Stock Series A (B)   | 421 shs.  | 12/27/07         | 208,456   | 742,136    |
| Convertible Preferred Stock Series B (B)   | 28 shs.   | 01/04/11         | 21,600    | 48,958     |
|  |   |                  | 230,056   | 791,094    |
| <b>All Current Holding Company</b>   |   |                  |           |            |
| A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.         |   |                  |           |            |
| 12% Senior Subordinated Note due 2015  | \$603,697   | 09/26/08         | 577,603   | 603,697    |
| Common Stock (B)   | 713 shs.  | 09/26/08         | 71,303    | 123,937    |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)                                     | 507 shs.  | 09/26/08         | 46,584    | 88,129     |
|  |   |                  | 695,490   | 815,763    |
| <b>American Hospice Management Holding LLC</b>   |   |                  |           |            |
| A for-profit hospice care provider in the United States.   |   |                  |           |            |
| 12% Senior Subordinated Note due 2013  | \$1,687,503   | *                | 1,673,898 | 1,687,503  |
| Preferred Class A Unit (B)   | 1,706 uts.  | **               | 170,600   | 233,624    |
| Preferred Class B Unit (B)   | 808 uts.  | 06/09/08         | 80,789    | 171,901    |
| Common Class B Unit (B)  | 16,100 uts.   | 01/22/04         | 1         | -          |
| Common Class D Unit (B)  | 3,690 uts.  | 09/12/06         | -         | -          |
|  |   |                  | 1,925,288 | 2,093,028  |
| * 01/22/04 and 06/09/08.   |   |                  |           |            |
| ** 01/22/04 and 09/12/06.  |   |                  |           |            |
| <b>AMS Holding LLC</b>   |   |                  |           |            |
| A leading multi-channel direct marketer of high-value collectible coins and proprietary-branded jewelry and watches. |   |                  |           |            |
| 14.25% Senior Subordinated Note due 2019   | \$1,148,898   | 10/04/12         | 1,127,132 | 1,135,496  |
| Limited Liability Company Unit Class A Preferred (B)   | 114 uts.  | 10/04/12         | 113,636   | 113,630    |



1,240,768 1,249,126

---

9

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost       | Fair Value   |
|--|---|------------------|------------|--------------|
| <b>Apex Analytix Holding Corporation</b>   |   |                  |            |              |
| A provider of audit recovery and fraud detection services and software to commercial and retail businesses in the U.S. and Europe. |   |                  |            |              |
| 12.5% Senior Subordinated Note due 2017  |   |                  |            |              |
|  | \$ 1,012,500  | 04/28/09         | \$ 924,818 | \$ 1,012,500 |
| Preferred Stock Series B (B)   | 1,623 shs.  | 04/28/09         | 162,269    | 216,400      |
| Common Stock (B)   | 723 shs.  | 04/28/09         | 723        | 56,278       |
|  |   |                  | 1,087,810  | 1,285,178    |
| <b>Arch Global Precision LLC</b>   |   |                  |            |              |
| A leading manufacturer of high tolerance precision components and consumable tools.  |   |                  |            |              |
| 14.75% Senior Subordinated Note due 2018   |   |                  |            |              |
|  | \$ 776,668  | 12/21/11         | 759,341    | 790,527      |
| Limited Liability Company  |   |                  |            |              |
| Unit Class B (B)   | 28 uts.   | 12/21/11         | 28,418     | 39,461       |
| Limited Liability Company  |   |                  |            |              |
| Unit Class C (B)   | 222 uts.  | 12/21/11         | 221,582    | 307,663      |
|  |   |                  | 1,009,341  | 1,137,651    |
| <b>Arrow Tru-Line Holdings, Inc.</b>   |   |                  |            |              |
| A manufacturer of hardware for residential and commercial overhead garage doors in North America.                                  |   |                  |            |              |
| 12% Senior Subordinated Note due 2016 (D)  |   |                  |            |              |
|  | \$ 816,040  | 05/18/05         | 749,976    | 816,040      |
| Preferred Stock (B)  | 33 shs.   | 10/16/09         | 33,224     | 78,844       |
| Common Stock (B)   | 263 shs.  | 05/18/05         | 263,298    | 3,991        |
| Warrant, exercisable until 2014, to purchase common stock at \$.01 per share   |   |                  |            |              |
| (B)  | 69 shs.   | 05/18/05         | 59,362     | 1,046        |
|  |   |                  | 1,105,860  | 899,921      |
| <b>Baby Jogger Holdings LLC</b>  |   |                  |            |              |
| A designer and marketer of premium baby strollers and stroller accessories.  |   |                  |            |              |
| 14% Senior Subordinated Note due 2019  |   |                  |            |              |
|  | \$ 942,213  | 04/20/12         | 925,379    | 970,479      |
| Common Stock (B)   | 754 shs.  | 04/20/12         | 75,376     | 116,349      |
|  |   |                  | 1,000,755  | 1,086,828    |
| <b>Blue Wave Products, Inc.</b>  |   |                  |            |              |
| A distributor of pool supplies.  |   |                  |            |              |
|  | \$ 317,730  | 10/12/12         | 311,750    | 313,646      |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

10% Senior Secured Term

Note due 2018

13% Senior Subordinated Note

|          |            |          |         |         |
|----------|------------|----------|---------|---------|
| due 2019 | \$ 319,233 | 10/12/12 | 296,684 | 313,894 |
|----------|------------|----------|---------|---------|

|                  |             |          |        |        |
|------------------|-------------|----------|--------|--------|
| Common Stock (B) | 51,064 shs. | 10/12/12 | 51,064 | 50,326 |
|------------------|-------------|----------|--------|--------|

Warrant, exercisable until

2022, to purchase

common stock at \$.01 per share

|     |             |          |        |        |
|-----|-------------|----------|--------|--------|
| (B) | 20,216 shs. | 10/12/12 | 20,216 | 19,924 |
|-----|-------------|----------|--------|--------|

|  |  |  |         |         |
|--|--|--|---------|---------|
|  |  |  | 679,714 | 697,790 |
|--|--|--|---------|---------|

BP SCI LLC

A leading value-added distributor of branded pipes, valves, and fittings (PVF) to diversified end markets.

14% Senior Subordinated Note

|          |              |          |           |           |
|----------|--------------|----------|-----------|-----------|
| due 2018 | \$ 1,051,295 | 10/17/12 | 1,031,502 | 1,035,411 |
|----------|--------------|----------|-----------|-----------|

Limited Liability Company

|                  |          |          |        |        |
|------------------|----------|----------|--------|--------|
| Unit Class A (B) | 417 uts. | 10/17/12 | 41,667 | 34,173 |
|------------------|----------|----------|--------|--------|

Limited Liability Company

|                  |          |          |         |         |
|------------------|----------|----------|---------|---------|
| Unit Class B (B) | 167 uts. | 10/17/12 | 166,666 | 170,837 |
|------------------|----------|----------|---------|---------|

|  |  |  |           |           |
|--|--|--|-----------|-----------|
|  |  |  | 1,239,835 | 1,240,421 |
|--|--|--|-----------|-----------|

---

10

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A)<br>(Continued)   | Principal<br>Amount,<br>Shares, Units<br>or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost         | Fair Value   |
|---|--|---------------------|--------------|--------------|
| <b>Bravo Sports Holding Corporation</b>   | -  |                     |              |              |
| A designer and marketer of niche branded consumer products including canopies, trampolines, in-line skates, skateboards, and urethane wheels.   |  |                     |              |              |
| 12.5% Senior Subordinated Note due 2014   | \$ 1,207,902   | 06/30/06            | \$ 1,190,806 | \$ 1,147,507 |
| Preferred Stock Class A (B)   | 465 shs.   | 06/30/06            | 141,946      | 83,405       |
| Common Stock (B)  | 1 sh.  | 06/30/06            | 152          | -            |
| Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)  | 164 shs.   | 06/30/06            | 48,760       | 29,312       |
|   |  |                     | 1,381,664    | 1,260,224    |
| <b>C D N T, Inc.</b>  |  |                     |              |              |
| A value-added converter and distributor of specialty pressure sensitive adhesives, foams, films, and foils.   |  |                     |              |              |
| 10.5% Senior Secured Term Note due 2014   | \$ 134,085   | 08/07/08            | 133,336      | 134,084      |
| 12.5% Senior Subordinated Note due 2015   | \$ 429,070   | 08/07/08            | 410,402      | 429,070      |
| Common Stock (B)  | 41,860 shs.  | 08/07/08            | 41,860       | 56,624       |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)  | 32,914 shs.  | 08/07/08            | 32,965       | 44,523       |
|   |  |                     | 618,563      | 664,301      |
| <b>Capital Specialty Plastics, Inc.</b>   |  |                     |              |              |
| A producer of desiccant strips used for packaging pharmaceutical products.  |  |                     |              |              |
| Common Stock (B)  | 55 shs.  | *                   | 252          | 515,888      |
| *12/30/97 and 05/29/99.   |  |                     |              |              |
| <b>CHG Alternative Education Holding Company</b>  |  |                     |              |              |
| A leading provider of publicly-funded, for profit pre-K-12 education services targeting special needs children at therapeutic day schools and "at risk" youth through alternative education programs. |  |                     |              |              |
| 13.5% Senior Subordinated Note due 2018   | \$ 736,666   | 01/19/11            | 702,896      | 751,399      |
| 14% Senior Subordinated Note due 2019   | \$ 190,011   | 08/03/12            | 186,482      | 191,122      |
| Common Stock (B)  | 375 shs.   | 01/19/11            | 37,500       | 40,393       |
| Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)  | 295 shs.   | 01/19/11            | 29,250       | 31,751       |
|   |  |                     | 956,128      | 1,014,665    |
| <b>Church Services Holding Company</b>  |  |                     |              |              |
| A provider of diversified residential services to homeowners in Houston, Dallas, and Austin markets.  |  |                     |              |              |
| 14.5% Senior Subordinated Note due 2018   | \$ 408,150   | 03/26/12            | 396,033      | 416,313      |
| Common Stock (B)  | 1,327 shs.   | *                   | 132,700      | 123,424      |
| Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)  | 57 shs.  | 03/26/12            | 5,740        | 5,302        |

\*03/26/12, 05/25/12 and 06/19/12.

534,473

545,039

---

11

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date                      | Cost  | Fair Value                                  |
|---|---|---------------------------------------|---|---|
| Clough, Harbour and Associates<br>An engineering service firm that is located in Albany, NY.<br>Preferred Stock (B)   | 147 shs.  | 12/02/08                              | \$ 146,594                                    | \$ 203,462                                  |
| Connecticut Electric, Inc.<br>A supplier and distributor of electrical products sold into the retail and wholesale markets.<br>10% Senior Subordinated Note due 2014 (D)<br>Limited Liability Company<br>Unit Class A (B)   | \$ 771,051  | 01/12/07                              | 719,299                                       | 743,539                                     |
| Limited Liability Company<br>Unit Class C (B)   | 82,613 uts.   | 01/12/07                              | 82,613  | 10,303                                      |
| Limited Liability Company<br>Unit Class D (B)   | 59,756 uts.   | 01/12/07                              | 59,756  | 7,987                                       |
| Limited Liability Company<br>Unit Class E (B)   | 671,525 uts.  | 05/03/10                              | -   | 708,682                                     |
| Limited Liability Company<br>Unit Class E (B)   | 1,102 uts.  | 05/03/10                              | -   | -   |
|   |   |                                       | 861,668                                       | 1,470,511                                   |
| Connor Sport Court International, Inc.<br>A designer and manufacturer of outdoor and indoor synthetic sports flooring and other temporary flooring products.<br>Preferred Stock Series B-2 (B)<br>Preferred Stock Series C (B)<br>Common Stock (B)<br>Limited Partnership Interest (B)<br>*08/12/04 and 01/14/05. | 9,081 shs.<br>3,748 shs.<br>380 shs.<br>6.88% int.      | 07/05/07<br>07/05/07<br>07/05/07<br>* | 370,796<br>125,207<br>4<br>103,135<br>599,142 | 908,072<br>374,811<br>168<br>-<br>1,283,051 |
| CorePharma LLC<br>A manufacturer of oral dose generic pharmaceuticals targeted at niche applications.<br>Warrant, exercisable until 2013, to purchase common stock at \$.001 per share (B)  | 10 shs.   | 08/04/05                              | 72,617  | 415,944                                     |
| Crane Rental Corporation  |   |                                       |   |   |

A crane rental company since  
1960, headquartered in Florida.

|   |              |          |                      |                     |
|---|--------------|----------|----------------------|---------------------|
| 13% Senior Subordinated Note<br>due 2015  | \$ 1,215,000 | 08/21/08 | 1,155,794            | 1,207,986           |
| Common Stock (B)  | 135,000 shs. | 08/21/08 | 135,000              | 55,570              |
| Warrant, exercisable until<br>2016, to purchase<br>common stock at \$.01 per<br>share (B) | 72,037 shs.  | 08/21/08 | 103,143<br>1,393,937 | 29,652<br>1,293,208 |

---

12

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal Amount,<br>Shares, Units or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost       | Fair Value |
|--|--|---------------------|------------|------------|
| <b>Custom Engineered Wheels, Inc.</b>  |  |                     |            |            |
| A manufacturer of custom engineered, non-pneumatic plastic wheels and plastic tread cap tires used primarily for lawn and garden products and wheelchairs. |  |                     |            |            |
| 12.5% Senior Subordinated  |  |                     |            |            |
| Note due 2016  | \$ 765,865   | 10/27/09            | \$ 700,802 | \$ 765,865 |
| Preferred Stock PIK (B)  | 156 shs.   | 10/27/09            | 156,468    | 117,011    |
| Preferred Stock Series A (B)   | 114 shs.   | 10/27/09            | 104,374    | 85,491     |
| Common Stock (B)   | 38 shs.  | 10/27/09            | 38,244     | -          |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)   | 28 shs.  | 10/27/09            | 25,735     | -          |
|  |  |                     | 1,025,623  | 968,367    |
| <b>DPL Holding Corporation</b>   |  |                     |            |            |
| A distributor and manufacturer of aftermarket undercarriage parts for medium and heavy duty trucks and trailers.   |  |                     |            |            |
| 14% Senior Subordinated Note   |  |                     |            |            |
| due 2019   | \$ 1,302,758   | 05/04/12            | 1,279,175  | 1,312,315  |
| Preferred Stock (B)  | 25 shs.  | 05/04/12            | 252,434    | 255,485    |
| Common Stock (B)   | 25 shs.  | 05/04/12            | 28,048     | 17,382     |
|  |  |                     | 1,559,657  | 1,585,182  |
| <b>Duncan Systems, Inc.</b>  |  |                     |            |            |
| A distributor of windshields and side glass for the recreational vehicle market.   |  |                     |            |            |
| 10% Senior Secured Term  |  |                     |            |            |
| Note due 2013  | \$ 77,143  | 11/01/06            | 77,014     | 76,519     |
| 13% Senior Subordinated Note   |  |                     |            |            |
| due 2014   | \$ 488,572   | 11/01/06            | 472,090    | 481,598    |
| Common Stock (B)   | 102,857 shs.   | 11/01/06            | 102,857    | 27,613     |
| Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)   | 32,294 shs.  | 11/01/06            | 44,663     | 8,670      |
|  |  |                     | 696,624    | 594,400    |
| <b>E S P Holdco, Inc.</b>  |  |                     |            |            |
| A manufacturer of power protection technology for commercial office equipment, primarily supplying the office equipment dealer network.                    |  |                     |            |            |
| 14% Senior Subordinated Note due 2015  |  | \$ 1,304,643        | 01/08/08   | 1,293,150  |
| Common Stock (B)   |  | 349 shs.            | 01/08/08   | 174,701    |
|  |  |                     |            | 1,304,643  |
|  |  |                     |            | 190,476    |



|  |           |          |           |           |
|--|-----------|----------|-----------|-----------|
|  |           |          | 1,467,851 | 1,495,119 |
| Eatam Holding Company  |           |          |           |           |
| A developer and manufacturer of savory flavor systems for soups, sauces, gravies, and other products produced by food manufacturers for retail and foodservice end products. |           |          |           |           |
| 12.5% Senior Subordinated Note due 2018  | \$950,000 | 02/01/10 | 856,827   | 951,023   |
| Common Stock (B)   | 50 shs.   | 02/01/10 | 50,000    | 42,377    |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)   | 119 shs.  | 02/01/10 | 107,100   | 101,044   |
|  |           |          | 1,013,927 | 1,094,444 |

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost      | Fair Value |
|---|---|------------------|-----------|------------|
| <b>ELT Holding Company</b>  |   |                  |           |            |
| A provider of web-based ethics and compliance training solutions for companies in the United States.  |   |                  |           |            |
| 14% Senior Subordinated Note due 2019   | \$929,204   | 03/01/12         | \$912,889 | \$945,289  |
| Common Stock (B)  | 41 shs.   | 03/01/12         | 90,909    | 104,913    |
|   |   |                  | 1,003,798 | 1,050,202  |
| <b>F F C Holding Corporation</b>  |   |                  |           |            |
| A leading U.S. manufacturer of private label frozen novelty and ice cream products.   |   |                  |           |            |
| 16% Senior Subordinated Note due 2017   | \$905,103   | 09/27/10         | 893,411   | 914,154    |
| Limited Liability Company Unit Preferred (B)  | 171 uts.  | 09/27/10         | 58,345    | 184,278    |
| Limited Liability Company Unit (B)  | 171 uts.  | 09/27/10         | 17,073    | 30,443     |
|   |   |                  | 968,829   | 1,128,875  |
| <b>F G I Equity LLC</b>   |   |                  |           |            |
| A manufacturer of a broad range of filters and related products that are used in commercial, light industrial, healthcare, gas turbine, nuclear, laboratory, clean room, hotel, educational system, and food processing settings. |   |                  |           |            |
| 14.25% Senior Subordinated Note due 2018  | \$112,749   | 02/29/12         | 112,782   | 115,004    |
| Limited Liability Company Unit Class B-1 (B)  | 65,789 uts.   | 12/15/10         | 65,789    | 133,578    |
| Limited Liability Company Unit Class B-2 (B)  | 8,248 uts.  | 12/15/10         | 8,248     | 16,747     |
| Limited Liability Company Unit Class B-3 (B)  | 6,522 uts.  | 08/30/12         | 15,000    | 14,853     |
| Limited Liability Company Unit Class C (B)  | 1,575 uts.  | 12/20/10         | 16,009    | 21,158     |
|   |   |                  | 217,828   | 301,340    |
| <b>Flutes, Inc.</b>   |   |                  |           |            |
| An independent manufacturer of micro fluted corrugated sheet material for the food and consumer products packaging industries.  |   |                  |           |            |
| 10% Senior Secured Term Note due 2014 (D)   | \$524,791   | 04/13/06         | 519,050   | 498,551    |
| 14% Senior Subordinated Note due 2015 (D)   | \$317,177   | 04/13/06         | 290,908   | -          |
|   |   |                  | 809,958   | 498,551    |
| <b>G C Holdings</b>   |   |                  |           |            |
| A leading manufacturer of gaming tickets, industrial recording charts, security-enabled point-of sale receipts, and medical charts and supplies.  |   |                  |           |            |
| 12.5% Senior Subordinated Note due 2017   | \$1,000,000   | 10/19/10         | 950,023   | 1,010,000  |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)  | 198 shs.  | 10/19/10         | 46,958    | 548,188    |
|   |   |                  | 996,981   | 1,558,188  |
| <b>GD Dental Services LLC</b>   |   |                  |           |            |
| A provider of convenient "onestop" general, specialty, and cosmetic dental services with 21 offices located throughout South and Central Florida.   |   |                  |           |            |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|  |             |          |           |           |
|--|-------------|----------|-----------|-----------|
| 14% Senior Subordinated Note due 2019        | \$1,178,854 | 10/05/12 | 1,156,383 | 1,167,463 |
| Limited Liability Company Unit Common (B)    | 767 uts.    | 10/05/12 | 767       | -         |
| Limited Liability Company Unit Preferred (B) | 76 uts.     | 10/05/12 | 75,920    | 74,088    |
|  |             |          | 1,233,070 | 1,241,551 |

---

14

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost        | Fair Value  |
|--|---|------------------|-------------|-------------|
| <b>gloProfessional Holdings, Inc.</b>  |   |                  |             |             |
| A marketer and distributor of premium mineral-based cosmetics, cosmeceuticals and professional hair care products to the professional spa and physician's office channels. |   |                  |             |             |
| 14% Senior Subordinated Note due 2019  | \$1,131,890   | 03/27/13         | \$1,109,286 | \$1,130,075 |
| Common Stock (B)   | 1,181 shs.  | 03/27/13         | 118,110     | 112,204     |
|  |   |                  | 1,227,396   | 1,242,279   |
| <b>Golden County Foods Holding, Inc.</b>   |   |                  |             |             |
| A manufacturer of frozen appetizers and snacks.  |   |                  |             |             |
| 16% Senior Subordinated Note due 2015 (D)  | \$1,012,500   | 11/01/07         | 938,215     | -           |
| 14% PIK Note due 2015 (D)  | \$250,259   | 12/31/08         | 217,699     | -           |
| 8% Series A Convertible Preferred Stock, convertible into common shares (B)  | 151,643 shs.  | 11/01/07         | 77,643      | -           |
|  |   |                  | 1,233,557   | -           |
| <b>H M Holding Company</b>   |   |                  |             |             |
| A designer, manufacturer, and importer of promotional and wood furniture.  |   |                  |             |             |
| 7.5% Senior Subordinated Note due 2014 (D)   | \$362,700   | 10/15/09         | 271,181     | -           |
| Preferred Stock (B)  | 21 shs.   | *                | 21,428      | -           |
| Preferred Stock Series B (B)   | 1,088 shs.  | 10/15/09         | 813,544     | -           |
| Common Stock (B)   | 180 shs.  | 02/10/06         | 180,000     | -           |
| Common Stock Class C (B)   | 296 shs.  | 10/15/09         | -           | -           |
| Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)   | 67 shs.   | 02/10/06         | 61,875      | -           |
| * 09/18/07 and 06/27/08.   |   |                  | 1,348,028   | -           |
| <b>Handi Quilter Holding Company</b>   |   |                  |             |             |
| A designer and manufacturer of long-arm quilting machines and related components for the consumer quilting market.   |   |                  |             |             |
| 12% Senior Subordinated Note due 2017  | \$461,539   | 11/14/11         | 432,416     | 475,385     |
| Common Stock (B)   | 38 shs.   | 11/14/11         | 38,461      | 72,594      |
| Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)   | 28 shs.   | 11/14/11         | 25,596      | 51,982      |
|  |   |                  | 496,473     | 599,961     |
| <b>Healthcare Direct Holding Company</b>   |   |                  |             |             |
| A direct-to-customer marketer of discount dental plans.  |   |                  |             |             |
| 14% Senior Subordinated Note due 2019  | \$713,454   | 03/09/12         | 700,901     | 692,239     |
| Common Stock (B)   | 517 shs.  | 03/09/12         | 51,724      | 21,863      |
|  |   |                  | 752,625     | 714,102     |

---

15

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Restricted Securities: (A)<br>(Continued)  | Principal<br>Amount,<br>Shares,<br>Units or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost      | Fair Value |
|--|--|---------------------|-----------|------------|
| <b>Home Décor Holding Company</b>  |  |                     |           |            |
| A designer, manufacturer and marketer of framed art and wall décor products.                               |  |                     |           |            |
| Common Stock (B)   | 33 shs.  | *                   | \$ 33,216 | \$ 86,223  |
| Warrant, exercisable until 2013, to<br>purchase<br>common stock at \$.02 per share (B)                     | 106 shs.   | *                   | 105,618   | 274,139    |
| * 06/30/04 and 08/19/04.   |  |                     | 138,834   | 360,362    |
| <b>HOP Entertainment LLC</b>   |  |                     |           |            |
| A provider of post production equipment and services to producers of television shows and motion pictures. |  |                     |           |            |
| Limited Liability Company  |  |                     |           |            |
| Unit Class F (B)   | 47 uts.  | 10/14/11            | -         | -          |
| Limited Liability Company  |  |                     |           |            |
| Unit Class G (B)   | 114 uts.   | 10/14/11            | -         | -          |
| Limited Liability Company  |  |                     |           |            |
| Unit Class H (B)   | 47 uts.  | 10/14/11            | -         | -          |
| Limited Liability Company  |  |                     |           |            |
| Unit Class I (B)   | 47 uts.  | 10/14/11            | -         | -          |
| <b>Hospitality Mints Holding Company</b>   |  |                     |           |            |
| A manufacturer of individually-wrapped imprinted promotional mints.  |  |                     |           |            |
| 12% Senior Subordinated  |  |                     |           |            |
| Note due 2016  | \$ 1,098,837   | 08/19/08            | 1,052,512 | 1,071,189  |
| Common Stock (B)   | 251 shs.   | 08/19/08            | 251,163   | 40,791     |
| Warrant, exercisable until<br>2016, to purchase<br>common stock at \$.01 per<br>share (B)                  | 65 shs.  | 08/19/08            | 60,233    | 10,544     |
|  |  |                     | 1,363,908 | 1,122,524  |
| <b>HVAC Holdings, Inc.</b>   |  |                     |           |            |
| A provider of integrated energy efficiency services and maintenance programs for HVAC systems.             |  |                     |           |            |
| 14% Senior Subordinated  |  |                     |           |            |
| Note due 2019  | \$ 1,148,010   | 09/27/12            | 1,126,292 | 1,124,592  |
| Preferred Stock Series A (B)   | 1,127 shs.   | 09/27/12            | 112,726   | 116,009    |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|  |              |          |           |           |
|--|--------------|----------|-----------|-----------|
| Common Stock (B)   | 910 shs.     | 09/27/12 | 910       | -         |
|  |              |          | 1,239,928 | 1,240,601 |
| Ideal Tridon Holdings, Inc.  |              |          |           |           |
| A designer and manufacturer of clamps and couplings used in automotive and industrial end markets.   |              |          |           |           |
| Common Stock (B)   | 93 shs.      | 10/27/11 | 92,854    | 129,791   |
| Insurance Claims Management, Inc.  |              |          |           |           |
| A third party administrator providing auto and property claim administration services for insurance companies.   |              |          |           |           |
| Common Stock (B)   | 47 shs.      | 02/27/07 | 1,424     | 167,518   |
| International Offshore Services LLC  |              |          |           |           |
| A leading provider of marine transportation services, platform decommissioning, and salvage services to oil and gas producers in the shallow waters of the Gulf of Mexico. |              |          |           |           |
| 14.25% Senior Subordinated Secured Note due 2017 (D)   | \$ 1,350,000 | 07/07/09 | 1,236,405 | -         |
| Limited Liability Company Unit (B)   | 1,647 uts.   | 07/07/09 | 98,833    | -         |
|  |              |          | 1,335,238 | -         |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount,<br>Shares, Units<br>or<br>Ownership Percentage | Acquisition Date | Cost       | Fair Value |
|---|--|------------------|------------|------------|
| <b>J A C Holding Enterprises, Inc.</b>  |  |                  |            |            |
| A supplier of luggage racks and accessories to the original equipment manufacturers.              |  |                  |            |            |
| 12.5% Senior Subordinated   |  |                  |            |            |
| Note due 2017   | \$ 833,333   | 12/20/10         | \$ 737,644 | \$ 831,865 |
| Preferred Stock A (B)   | 165 shs.   | 12/20/10         | 165,000    | 128,589    |
| Preferred Stock B (B)   | 0.06 shs.  | 12/20/10         | -          | 47         |
| Common Stock (B)  | 33 shs.  | 12/20/10         | 1,667      | -          |
| Warrant, exercisable until 2020,<br>to purchase<br>common stock at \$.01 per share<br>(B)         | 12 shs.  | 12/20/10         | 105,643    | -          |
|   |  |                  | 1,009,954  | 960,501    |
| <b>Jason Partners Holdings LLC</b>  |  |                  |            |            |
| A diversified manufacturing company serving various industrial markets.                           |  |                  |            |            |
| Limited Liability Company Unit<br>(B)   | 48 uts.  | 09/21/10         | 449,086    | 25,511     |
| <b>JMH Investors LLC</b>  |  |                  |            |            |
| A developer and manufacturer of custom formulations for a wide variety of foods.                  |  |                  |            |            |
| 14.25% Senior Subordinated  |  |                  |            |            |
| Note due 2019   | \$ 1,040,105   | 12/05/12         | 1,020,013  | 1,035,241  |
| Limited Liability Company Unit<br>(B)   | 217,391 uts.   | 12/05/12         | 217,391    | 192,041    |
|   |  |                  | 1,237,404  | 1,227,282  |
| <b>K &amp; N Parent, Inc.</b>   |  |                  |            |            |
| A manufacturer and supplier of automotive aftermarket performance air filters and intake systems. |  |                  |            |            |
| 14% Senior Subordinated Note  |  |                  |            |            |
| due 2017  | \$ 882,674   | 12/23/11         | 867,523    | 909,154    |
| Preferred Stock Series A (B)  | 102 shs.   | 12/23/11         | 96,578     | 96,577     |
| Preferred Stock Series B (B)  | 29 shs.  | 12/23/11         | 27,335     | 27,332     |
| Common Stock (B)  | 130 shs.   | 12/23/11         | 6,522      | 71,790     |
|   |  |                  | 997,958    | 1,104,853  |
| <b>K N B Holdings Corporation</b>   |  |                  |            |            |
| A designer, manufacturer and marketer of products for the custom framing market.                  |  |                  |            |            |
| 15% Senior Subordinated Note  |  |                  |            |            |
| due 2017  | \$ 2,251,896   | *                | 2,094,903  | 2,251,895  |



Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|   |             |          |           |           |
|---|-------------|----------|-----------|-----------|
| Common Stock (B)  | 71,053 shs. | 05/25/06 | 71,053    | 36,738    |
| Warrant, exercisable until 2016,<br>to purchase<br>common stock at \$.01 per share<br>(B) | 43,600 shs. | 05/25/06 | 37,871    | 22,544    |
| * 5/25/06 and 04/12/11.   |             |          | 2,203,827 | 2,311,177 |

K P H I Holdings, Inc.

A manufacturer of highly engineered plastic and metal components for a diverse range of end-markets, including medical, consumer and industrial, automotive and defense.

|                  |              |          |         |         |
|------------------|--------------|----------|---------|---------|
| Common Stock (B) | 232,826 shs. | 12/10/10 | 232,826 | 265,782 |
|------------------|--------------|----------|---------|---------|

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount,<br>Shares, Units<br>or<br>Ownership Percentage | Acquisition Date | Cost         | Fair Value   |
|---|--|------------------|--------------|--------------|
| <b>K P I Holdings, Inc.</b>   |  |                  |              |              |
| The largest player in the U.S. non-automotive, non-ferrous die casting segment.   |  |                  |              |              |
| 12.75% Senior Subordinated Note due 2015  | \$ 1,455,585   | 07/16/08         | \$ 1,395,520 | \$ 1,455,585 |
| Convertible Preferred Stock Series C (B)  | 29 shs.  | 06/30/09         | 29,348       | 58,000       |
| Convertible Preferred Stock Series D (B)  | 13 shs.  | 09/17/09         | 12,958       | 38,880       |
| Common Stock (B)  | 235 shs.   | 07/15/08         | 234,783      | 20,619       |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)  | 51 shs.  | 07/16/08         | 50,836       | 4,465        |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)  | 67 shs.  | 09/17/09         | -            | 5,919        |
|   |  |                  | 1,723,445    | 1,583,468    |
| <b>LPC Holding Company</b>  |  |                  |              |              |
| A designer and manufacturer of precision-molded silicone rubber components that are utilized in the medical and automotive end markets.                                       |  |                  |              |              |
| 13.5% Senior Subordinated Note due 2018   | \$ 1,166,552   | 08/15/11         | 1,147,154    | 1,189,883    |
| Common Stock (B)  | 105 shs.   | 08/15/11         | 105,019      | 129,688      |
|   |  |                  | 1,252,173    | 1,319,571    |
| <b>M V I Holding, Inc.</b>  |  |                  |              |              |
| A manufacturer of large precision machined metal components used in equipment which services a variety of industries, including the oil and gas, mining, and defense markets. |  |                  |              |              |
| Common Stock (B)  | 32 shs.  | 09/12/08         | 32,143       | 63,586       |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)  | 35 shs.  | 09/12/08         | 34,714       | 68,671       |
|   |  |                  | 66,857       | 132,257      |
| <b>Mail Communications Group, Inc.</b>  |  |                  |              |              |
| A provider of mail processing and handling services, lettershop services, and commercial printing services.   |  |                  |              |              |
| Limited Liability Company Unit (B)  | 12,764 uts.  | *                | 166,481      | 269,074      |
| Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)  | 1,787 shs.   | 05/04/07         | 22,781       | 37,673       |
|   |  |                  | 189,262      | 306,747      |

\* 05/04/07 and 01/02/08.

Manhattan Beachwear Holding Company

A designer and distributor of women's swimwear.

|  |            |          |         |         |
|--|------------|----------|---------|---------|
| 12.5% Senior Subordinated Note due 2018  | \$ 419,971 | 01/15/10 | 380,787 | 419,971 |
| 15% Senior Subordinated Note due 2018  | \$ 108,968 | 10/05/10 | 107,338 | 105,086 |
| Common Stock (B)   | 35 shs.    | 10/05/10 | 35,400  | 30,289  |
| Common Stock Class B (B)   | 118 shs.   | 01/15/10 | 117,647 | 100,664 |
| Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B) | 104 shs.   | 01/15/10 | 94,579  | 89,088  |
|  |            |          | 735,751 | 745,098 |

---

18

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount,<br>Shares, Units<br>or<br>Ownership Percentage | Acquisition Date | Cost      | Fair Value |
|---|--|------------------|-----------|------------|
| <b>Marshall Physicians Services LLC</b>   |  |                  |           |            |
| A provider of emergency department and hospital medicine services to hospitals located in the state of Kentucky. The Company was founded in 1999 and is owned by seven practicing physicians. |  |                  |           |            |
| 13% Senior Subordinated Note due 2016   | \$ 446,765   | 09/20/11         | \$439,325 | \$455,123  |
| Limited Liability Company Unit Class A (B)  | 2,900 uts.   | 09/20/11         | 60,000    | 41,163     |
| Limited Liability Company Unit Class D (B)  | 291 uts.   | 09/20/11         | -         | 4,137      |
|   |  |                  | 499,325   | 500,423    |
| <b>MBWS Ultimate Holdco, Inc.</b>   |  |                  |           |            |
| A provider of services throughout North Dakota that address the fluid management and related transportation needs of an oil well.   |  |                  |           |            |
| 12% Senior Subordinated Note due 2016   | \$ 1,117,495   | *                | 1,043,554 | 1,128,670  |
| Preferred Stock Series A (B)  | 1,388 shs.   | 09/07/10         | 138,797   | 414,851    |
| Common Stock (B)  | 162 shs.   | 03/01/11         | 16,226    | 48,419     |
| Common Stock (B)  | 153 shs.   | 09/07/10         | 15,282    | 45,729     |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)  | 103 shs.   | 03/01/11         | 10,325    | 30,785     |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)  | 386 shs.   | 09/07/10         | 38,623    | 115,369    |
| * 09/07/10 and 03/01/11.  |  |                  | 1,262,807 | 1,783,823  |
| <b>MedSystems Holdings LLC</b>  |  |                  |           |            |
| A manufacturer of enteral feeding products, such as feeding tubes and other products related to assisted feeding.   |  |                  |           |            |
| 13% Senior Subordinated Note due 2015   | \$ 636,369   | 08/29/08         | 598,931   | 636,369    |
| Preferred Unit (B)  | 66 uts.  | 08/29/08         | 66,451    | 83,841     |
| Common Unit Class A (B)   | 671 uts.   | 08/29/08         | 671       | 32,390     |
| Common Unit Class B (B)   | 250 uts.   | 08/29/08         | 63,564    | 12,052     |
|   |  |                  | 729,617   | 764,652    |
| <b>MEGTEC Holdings, Inc.</b>  |  |                  |           |            |
| A supplier of industrial and environmental products and services to a broad array of industries.  |  |                  |           |            |
| Preferred Stock (B)   | 56 shs.  | 09/24/08         | 54,040    | 82,402     |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|   |                               |                              |                                      |                                      |
|---|-------------------------------|------------------------------|--------------------------------------|--------------------------------------|
| Limited Partnership Interest (B)<br>Warrant, exercisable until 2018,<br>to purchase<br>common stock at \$.01 per share<br>(B) | 0.74% int.<br><br><br>18 shs. | 09/16/08<br><br><br>09/24/08 | 205,932<br><br><br>18,237<br>278,209 | 284,673<br><br><br>24,044<br>391,119 |
|---|-------------------------------|------------------------------|--------------------------------------|--------------------------------------|

Merex Holding Corporation

A provider of after-market spare parts and components, as well as Maintenance, Repair and Overhaul services for “out of production” or “legacy” aerospace and defense systems that are no longer effectively supported by the original equipment manufacturers.

|   |              |          |                    |                    |
|---|--------------|----------|--------------------|--------------------|
| 14% Senior Subordinated Note due 2018       | \$ 424,528   | 09/22/11 | 417,304            | 437,264            |
| Limited Liability Company Unit Series B (B) | 155,945 uts. | 09/22/11 | 155,945<br>573,249 | 151,674<br>588,938 |

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  |              | Principal<br>Amount,<br>Shares, Units<br>or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost       | Fair Value |
|---|--------------|--|---------------------|------------|------------|
| <b>MicroGroup, Inc.</b>   |              |  |                     |            |            |
| A manufacturer of precision parts and assemblies, and a value-added supplier of metal tubing and bars.                |              |  |                     |            |            |
| 7% Senior Subordinated Note due 2014 (D)  | \$ 902,727   | *  |                     | \$ 865,676 | \$ 225,682 |
| Preferred Stock Series A (B)  | 519 shs.     | 10/10/12   |                     | 498,734    | -          |
| Common Stock (B)  | 238 shs.     | *  |                     | 238,000    | -          |
| Common Stock Series B (B)   | 597 shs.     | 10/10/12   |                     | 6          | -          |
| Warrant, exercisable until 2014, to purchase common stock at \$.02 per share (B)                                      | 87 shs.      | *  |                     | 86,281     | -          |
| * 08/12/05 and 09/11/06.  |              |  |                     | 1,688,697  | 225,682    |
| <b>MNX Holding Company</b>  |              |  |                     |            |            |
| An international third party logistics Company providing customized logistics services to customers across the globe. |              |  |                     |            |            |
| 14% Senior Subordinated Note due 2019   | \$ 1,215,354 | 11/02/12   |                     | 1,192,109  | 1,194,375  |
| Common Stock (B)  | 45 shs.      | 11/02/12   |                     | 44,643     | 28,274     |
|   |              |  |                     | 1,236,752  | 1,222,649  |
| <b>Monessen Holding Corporation</b>   |              |  |                     |            |            |
| A designer and manufacturer of a broad line of gas, wood, and electric hearth products and accessories.               |              |  |                     |            |            |
| 15% Senior Subordinated Note due 2015 (D)   | \$ 823,794   | 06/28/11   |                     | 547,745    | -          |
| 7% Senior Subordinated Note due 2014 (D)  | \$ 1,350,000 | 06/28/11   |                     | 1,281,479  | -          |
| Warrant, exercisable until 2014, to purchase common stock at \$.02 per share (B)                                      | 81 shs.      | 03/31/06   |                     | 73,125     | -          |
|   |              |  |                     | 1,902,349  | -          |
| <b>Motion Controls Holdings</b>   |              |  |                     |            |            |
| A manufacturer of high performance mechanical motion control and linkage products.                                    |              |  |                     |            |            |
| 14.25% Senior Subordinated Note due 2017  | \$ 944,533   | 11/30/10   |                     | 931,373    | 944,211    |
| Limited Liability Company Unit Class B-1 (B)  | 93,750 uts.  | 11/30/10   |                     | -          | 74,958     |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|  |            |          |              |                    |
|--|------------|----------|--------------|--------------------|
| Limited Liability Company Unit<br>Class B-2 (B)  | 8,501 uts. | 11/30/10 | -<br>931,373 | 6,797<br>1,025,966 |
| NABCO, Inc.<br>A producer of explosive<br>containment vessels in the<br>United States. | 429 shs.   | 12/20/12 | 306,091      | 175,461            |

---

20

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount,<br>Shares, Units<br>or<br>Ownership Percentage | Acquisition Date | Cost      | Fair Value  |
|---|--|------------------|-----------|-------------|
| <b>NetShape Technologies, Inc.</b>  |  |                  |           |             |
| A manufacturer of powder metal and metal injection molded precision components used in industrial, consumer, and other applications.          |  |                  |           |             |
| 14% Senior Subordinated Note due 2014   | \$ 1,061,463   | 02/02/07         | \$993,035 | \$1,008,389 |
| Limited Partnership Interest of Saw Mill PCG Partners LLC (B)   | 1.38% int.   | 02/01/07         | 588,077   | -           |
| Limited Liability Company Unit Class D of Saw Mill PCG Partners LLC (B)   | 9 uts.   | *                | 8,873     | -           |
| Limited Liability Company Unit Class D-1 of Saw Mill PCG Partners LLC (B)   | 121 uts.   | 09/30/09         | 121,160   | 203,869     |
| Limited Liability Company Unit Class D-2 of Saw Mill PCG Partners LLC (B)   | 68 uts.  | 04/29/11         | 34,547    | 47,071      |
| * 12/18/08 and 09/30/09.  |  |                  | 1,745,692 | 1,259,329   |
| <b>Nicoat Acquisitions LLC</b>  |  |                  |           |             |
| A manufacturer of water-based and ultraviolet coatings for high-performance graphic arts, packaging and other specialty coating applications. |  |                  |           |             |
| 14% Senior Subordinated Note due 2018   | \$ 486,205   | 11/05/10         | 453,607   | 491,067     |
| Limited Liability Company Unit Series B (B)   | 17,241 uts.  | 11/05/10         | 17,241    | 20,501      |
| Limited Liability Company Unit Series B (B)   | 34,931 uts.  | 11/05/10         | 34,931    | 41,536      |
| Limited Liability Company Unit Series F (B)   | 52,172 uts.  | 11/05/10         | -         | 91,604      |
|   |  |                  | 505,779   | 644,708     |
| <b>Northwest Mailing Services, Inc.</b>   |  |                  |           |             |
| A producer of promotional materials for companies that use direct mail as part of their customer retention and loyalty programs.              |  |                  |           |             |
| 12% Senior Subordinated Note due 2016   | \$ 1,492,105   | *                | 1,310,553 | 1,478,287   |
| Limited Partnership Interest (B)  | 1,740 uts.   | *                | 174,006   | 38,205      |
| Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)  | 2,605 shs.   | *                | 260,479   | 57,191      |
| * 07/09/09 and 08/09/10.  |  |                  | 1,745,038 | 1,573,683   |
| <b>NT Holding Company</b>   |  |                  |           |             |
| A leading developer, manufacturer and provider of medical products used primarily in interventional pain management.                          |  |                  |           |             |
| 12% Senior Subordinated Note due 2019   | \$ 883,117   | 02/02/11         | 825,124   | 891,948     |



Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|  |          |          |           |           |
|--|----------|----------|-----------|-----------|
| Common Stock (B)   | 126 shs. | *        | 125,883   | 114,949   |
| Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B) | 59 shs.  | 02/02/11 | 52,987    | 53,648    |
| * 02/02/11 and 06/30/11.   |          |          | 1,003,994 | 1,060,545 |

---

21

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal<br>Amount,<br>Shares, Units<br>or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost       | Fair Value |
|---|--|---------------------|------------|------------|
| <b>O E C Holding Corporation</b>  |  |                     |            |            |
| A provider of elevator maintenance, repair and modernization services.  |  |                     |            |            |
| 13% Senior Subordinated Note due 2017   | \$ 444,445   | 06/04/10            | \$ 415,764 | \$ 428,252 |
| Preferred Stock Series A (B)  | 554 shs.   | 06/04/10            | 55,354     | 20,149     |
| Preferred Stock Series B (B)  | 311 shs.   | 06/04/10            | 31,125     | 11,330     |
| Common Stock (B)  | 344 shs.   | 06/04/10            | 344        | -          |
|   |  |                     | 502,587    | 459,731    |
| <b>Ontario Drive &amp; Gear Ltd.</b>  |  |                     |            |            |
| A manufacturer of all-wheel drive, off-road amphibious vehicles and related accessories.  |  |                     |            |            |
| Limited Liability Company Unit (B)  | 1,942 uts.   | 01/17/06            | 302,885    | 759,020    |
| Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)  | 328 shs.   | 01/17/06            | 90,424     | 128,150    |
|   |  |                     | 393,309    | 887,170    |
| <b>P K C Holding Corporation</b>  |  |                     |            |            |
| A manufacturer of plastic film and badges for the general industrial, medical, and food industries.   |  |                     |            |            |
| 14% Senior Subordinated Note due 2016   | \$ 1,624,644   | 12/21/10            | 1,604,271  | 1,640,890  |
| Preferred Stock Class A (B)   | 29 shs.  | 12/21/10            | 180,380    | 286,496    |
| Common Stock (B)  | 29 shs.  | 12/21/10            | 13,500     | -          |
|   |  |                     | 1,798,151  | 1,927,386  |
| <b>P P T Holdings LLC</b>   |  |                     |            |            |
| A high-end packaging solutions provider that targets customers who have multiple packaging needs, require a high number of low volume SKUs, short lead times, technical expertise, and overall supply chain management. |  |                     |            |            |
| 15% Senior Subordinated Note due 2017   | \$ 956,625   | 12/20/10            | 942,775    | 948,956    |
| Limited Liability Company Unit Class A (B)  | 33 uts.  | 12/20/10            | 106,071    | 80,823     |
| Limited Liability Company Unit Class B (B)  | 33 uts.  | 12/20/10            | 1,072      | 80,823     |
|   |  |                     | 1,049,918  | 1,110,602  |
| <b>Pacific Consolidated Holdings LLC</b>  |  |                     |            |            |
| A manufacturer of rugged, mobile liquid and gaseous oxygen and nitrogen generating systems used in the global defense, oil and gas, and medical sectors.  |  |                     |            |            |
| 0% Senior Subordinated Note due 2014  | \$ 42,187  | 12/18/12            | -          | 42,187     |
| <b>Paradigm Packaging, Inc.</b>   |  |                     |            |            |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

A manufacturer of plastic bottles and closures for the nutritional, pharmaceutical, personal care, and food packaging markets.

|  |            |          |                    |                   |
|--|------------|----------|--------------------|-------------------|
| 12% Senior Subordinated Note due 2016  | \$ 843,750 | 12/19/00 | 842,240            | 843,750           |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B) | 197 shs.   | 12/21/00 | 140,625<br>982,865 | 64,997<br>908,747 |

---

22

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal<br>Amount,<br>Shares, Units<br>or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost      | Fair Value |
|---|--|---------------------|-----------|------------|
| <b>Pearlman Enterprises, Inc.</b>   |  |                     |           |            |
| A developer and distributor of tools, equipment and supplies to the natural and engineered stone industry.      |  |                     |           |            |
| Preferred Stock Series A (B)  | 1,236 shs.   | 05/22/09            | \$ 59,034 | \$ -       |
| Preferred Stock Series B (B)  | 7,059 shs.   | 05/22/09            | 290,050   | -          |
| Common Stock (B)  | 21,462 shs.  | 05/22/09            | 993,816   | -          |
|   |  |                     | 1,342,900 | -          |
| <b>Petroplex Inv Holdings LLC</b>   |  |                     |           |            |
| A leading provider of acidizing services to E&P customers in the Permian Basin.                                 |  |                     |           |            |
| 16% Senior Subordinated Note due 2018   | \$ 1,108,738   | 11/29/12            | 1,082,467 | 1,094,622  |
| Limited Liability Company Unit (B)  | 156,250 uts.   | 11/29/12            | 156,250   | 120,138    |
|   |  |                     | 1,238,717 | 1,214,760  |
| <b>Postle Aluminum Company LLC</b>  |  |                     |           |            |
| A manufacturer and distributor of aluminum extruded products.   |  |                     |           |            |
| 15% Senior Subordinated Note due 2013   | \$ 881,440   | 06/03/10            | 877,840   | 881,440    |
| Limited Liability Company Unit Class A (B)  | 733 uts.   | 10/02/06            | 270,000   | 125,583    |
| Limited Liability Company Unit (B)  | 76 uts.  | 05/22/09            | 340       | 13,025     |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)                                | 4,550 shs.   | 10/02/06            | 65,988    | 779,871    |
|   |  |                     | 1,214,168 | 1,799,919  |
| <b>Precision Wire Holding Company</b>   |  |                     |           |            |
| A manufacturer of specialty medical wires that are used in non-elective minimally invasive surgical procedures. |  |                     |           |            |
| Warrant, exercisable until 2019, to purchase  | 109 shs.   | 11/12/09            | 107,970   | 152,100    |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

common stock at \$.01 per  
share (B)

Qualis Automotive LLC

A distributor of aftermarket  
automotive brake and chassis  
products.

|                  |              |          |         |         |
|------------------|--------------|----------|---------|---------|
| Common Stock (B) | 187,500 shs. | 05/28/04 | 187,500 | 159,847 |
|------------------|--------------|----------|---------|---------|

|   |              |          |         |         |
|---|--------------|----------|---------|---------|
| Warrant, exercisable until<br>2014, to purchase<br>common stock at \$.01 per<br>share (B) | 199,969 shs. | 05/28/04 | 199,969 | 170,478 |
|---|--------------|----------|---------|---------|

|  |  |  |         |         |
|--|--|--|---------|---------|
|  |  |  | 387,469 | 330,325 |
|--|--|--|---------|---------|

R A J Manufacturing Holdings

LLC

A designer and manufacturer of women's swimwear sold under a variety of  
licensed brand names.

14.5% Senior Subordinated

|               |            |          |         |         |
|---------------|------------|----------|---------|---------|
| Note due 2014 | \$ 831,458 | 12/15/06 | 813,339 | 792,789 |
|---------------|------------|----------|---------|---------|

Limited Liability Company

|          |            |          |         |        |
|----------|------------|----------|---------|--------|
| Unit (B) | 1,497 uts. | 12/15/06 | 149,723 | 56,901 |
|----------|------------|----------|---------|--------|

|   |        |          |        |        |
|---|--------|----------|--------|--------|
| Warrant, exercisable until<br>2014, to purchase<br>common stock at \$.01 per<br>share (B) | 2 shs. | 12/15/06 | 69,609 | 26,851 |
|---|--------|----------|--------|--------|

|  |  |  |           |         |
|--|--|--|-----------|---------|
|  |  |  | 1,032,671 | 876,541 |
|--|--|--|-----------|---------|

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal<br>Amount,<br>Shares, Units<br>or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost         | Fair Value  |
|--|--|---------------------|--------------|-------------|
| <b>REVSpring, Inc.</b>   |  |                     |              |             |
| A provider of accounts receivable management and revenue cycle management services to customers in the healthcare, financial and utility industries. |  |                     |              |             |
| 14% Senior Subordinated Note due 2018  | \$ 1,143,496   | *                   | \$ 1,124,776 | \$1,160,671 |
| Limited Liability Company Unit Class A (B)   | 13,548 uts.  | *                   | 135,477      | 158,760     |
| * 10/21/11 and 08/03/12.   |  |                     | 1,260,253    | 1,319,431   |
| <b>RM Holding Company</b>  |  |                     |              |             |
| A specialty distributor of home medical care equipment.  |  |                     |              |             |
| 13% Senior Subordinated Note due 2018  | \$ 460,318   | 02/09/12            | 435,751      | 474,127     |
| Preferred Stock Series (B)   | 39,679 shs.  | 02/09/12            | 39,678       | 42,634      |
| Common Stock (B)   | 369 shs.   | 02/09/12            | 4            | 29,655      |
| Warrant, exercisable until 2022, to purchase preferred stock A at \$.01 per share (B)  | 12,088 shs.  | 02/09/12            | 11,980       | 12,760      |
| Warrant, exercisable until 2022, to purchase preferred stock B at \$.01 per share (B)  | 7,067 shs.   | 02/09/12            | 7,067        | 7,594       |
| Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)   | 185 shs.   | 02/09/12            | -            | 14,870      |
|  |  |                     | 494,480      | 581,640     |
| <b>Rose City Holding Company</b>   |  |                     |              |             |
| A designer and printer of folding cartons and packaging for food and beverage manufacturers on the West Coast.                                       |  |                     |              |             |
| 14.5% Senior Subordinated Note due 2018  | \$ 590,369   | 12/11/12            | 579,081      | 583,393     |
| Preferred Stock (B)  | 39,062 shs.  | 12/11/12            | 39,062       | 36,252      |
| Common Stock (B)   | 39 shs.  | 12/11/12            | 4            | -           |
|  |  |                     | 618,147      | 619,645     |
| <b>Safety Infrastructure Solutions</b>   |  |                     |              |             |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

A provider of trench safety equipment to a diverse customer base across multiple end markets in Texas and the Southwestern United States.

15% Senior Subordinated Note due

|                     |            |          |         |         |
|---------------------|------------|----------|---------|---------|
| 2018                | \$ 656,250 | 03/30/12 | 647,502 | 669,375 |
| Preferred Stock (B) | 2,098 shs. | 03/30/12 | 83,920  | 90,013  |
| Common Stock (B)    | 983 shs.   | 03/30/12 | 9,830   | 17,518  |
|                     |            |          | 741,252 | 776,906 |

Sencore Holding Company

A designer, manufacturer, and marketer of decoders, receivers and modulators sold to broadcasters, satellite, cable and telecom operators for encoding/decoding analog and digital transmission video signals.

12.5% Senior Subordinated Note

|              |              |          |         |         |
|--------------|--------------|----------|---------|---------|
| due 2014 (D) | \$ 1,157,231 | 01/15/09 | 826,004 | 289,308 |
|--------------|--------------|----------|---------|---------|

---

24

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal<br>Amount,<br>Shares, Units<br>or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost      | Fair Value |
|---|--|---------------------|-----------|------------|
| <b>Signature Systems Holding Company</b>  |  |                     |           |            |
| A seller and installer of a variety of modular surfaces, industrial matting and related products used for ground protection.      |  |                     |           |            |
| 12.5% Senior Subordinated Note due 2021   | \$755,088  | 03/15/13            | \$711,813 | \$753,957  |
| Common Stock (B)  | 76 shs.  | 03/15/13            | 75,509    | 71,734     |
| Warrant, exercisable until 2023, to purchase common stock A at \$.01 per share (B)  | 31 shs.  | 03/15/13            | 28,316    | -          |
|   |  |                     | 815,638   | 825,691    |
| <b>Smart Source Holdings LLC</b>  |  |                     |           |            |
| A short-term computer rental company.   |  |                     |           |            |
| 12% Senior Subordinated Note due 2015   | \$1,176,924  | *                   | 1,129,827 | 1,176,924  |
| Limited Liability Company Unit (B)  | 328 uts.   | *                   | 337,796   | 328,075    |
| Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)  | 83 shs.  | *                   | 87,231    | 83,102     |
| * 08/31/07 and 03/06/08.  |  |                     | 1,554,854 | 1,588,101  |
| <b>Snacks Parent Corporation</b>  |  |                     |           |            |
| The world's largest provider of trail mixes and a leading provider of snack nuts, dried fruits, and other healthy snack products. |  |                     |           |            |
| 13% Senior Subordinated Note due 2017   | \$ 889,609   | 11/12/10            | 849,852   | 898,505    |
| Preferred Stock A (B)   | 1,132 shs.   | 11/12/10            | 107,498   | 142,894    |
| Preferred Stock B (B)   | 525 shs.   | 11/12/10            | 49,884    | 66,309     |
| Common Stock (B)  | 6,579 shs.   | 11/12/10            | 6,579     | 28,923     |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)  | 1,806 shs.   | 11/12/10            | 1,806     | 7,940      |
|   |  |                     | 1,015,619 | 1,144,571  |
| <b>SouthernCare Holdings, Inc.</b>  |  |                     |           |            |
| A hospice company providing palliative care services to terminally ill patients.  |  |                     |           |            |
| Common Stock (B)  | 909 shs.   | 12/01/11            | 90,909    | 84,970     |
| <b>Spartan Foods Holding Company</b>  |  |                     |           |            |
| A manufacturer of branded pizza crusts and pancakes.  |  |                     |           |            |
| 14.25% Senior Subordinated Note due 2017  | \$ 1,200,671   | 12/15/09            | 1,074,968 | 1,145,760  |



Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|   |             |          |                      |                     |
|---|-------------|----------|----------------------|---------------------|
| Warrant, exercisable until 2018, to purchase<br>common stock at \$.01 per share (B) | 136 shs.    | 12/15/09 | 120,234<br>1,195,202 | 40,239<br>1,185,999 |
| Specialty Commodities, Inc.<br>A distributor of specialty food ingredients.         |             |          |                      |                     |
| Common Stock (B)  | 15,882 shs. | 10/23/08 | 158,824              | 119,619             |
| Warrant, exercisable until 2018, to purchase<br>common stock at \$.01 per share (B) | 5,852 shs.  | 10/23/08 | 53,285<br>212,109    | 44,076<br>163,695   |

---

25

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal<br>Amount,<br>Shares, Units<br>or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost         | Fair Value   |
|---|--|---------------------|--------------|--------------|
| <b>Stag Parkway Holding Company</b>   |  |                     |              |              |
| A distributor of RV parts and accessories in the United States.   |  |                     |              |              |
| 13% Senior Subordinated Note due 2018   | \$ 1,134,972   | 12/19/12            | \$ 1,082,382 | \$ 1,125,240 |
| Common Stock (B)  | 118 shs.   | 12/19/12            | 118,203      | 112,290      |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)  | 35 shs.  | 12/19/12            | 31,848       | -            |
|   |  |                     | 1,232,433    | 1,237,530    |
| <b>Strata/WLA Holding Corporation</b>   |  |                     |              |              |
| A leading independent anatomic pathology laboratory that conducts over 320,000 tests annually to customers in 40 U.S. states and in Canada and Venezuela. |  |                     |              |              |
| 14.5% Senior Subordinated Note due 2018   | \$ 959,148   | 07/01/11            | 943,703      | 863,233      |
| Preferred Stock Series A (B)  | 76 shs.  | 07/01/11            | 76,046       | 30,493       |
|   |  |                     | 1,019,749    | 893,726      |
| <b>Sundance Investco LLC</b>  |  |                     |              |              |
| A provider of post-production services to producers of movies and television shows.   |  |                     |              |              |
| Limited Liability Company Unit Class A (B)  | 3,405 shs.   | 03/31/10            | -            | -            |
| <b>Sunrise Windows Holding Company</b>  |  |                     |              |              |
| A manufacturer and marketer of premium vinyl windows exclusively selling to the residential remodeling and replacement market.                            |  |                     |              |              |
| 14% Senior Subordinated Note due 2017   | \$ 1,007,548   | 12/14/10            | 963,147      | 1,002,076    |
| 14% Senior Subordinated PIK Note due 2017   | \$ 81,597  | 08/14/12            | 78,367       | 81,154       |
| Common Stock (B)  | 38 shs.  | 12/14/10            | 38,168       | 15,556       |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)  | 37 shs.  | 12/14/10            | 37,249       | 15,181       |
|   |  |                     | 1,116,931    | 1,113,967    |
| <b>Synteract Holdings Corporation</b>   |  |                     |              |              |
| A provider of outsourced clinical trial management services to pharmaceutical and biotechnology companies.  |  |                     |              |              |
| 14% Senior Subordinated Note due 2019   | \$ 1,746,188   | 09/02/08            | 1,677,705    | 1,746,188    |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|  |            |          |           |           |
|--|------------|----------|-----------|-----------|
| Preferred Stock Series D (B)   | 257 shs.   | 02/27/13 | 25,678    | 10,966    |
| Redeemable Preferred Stock Series A (B)  | 678 shs.   | 09/02/08 | 6,630     | -         |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 6,778 shs. | 09/02/08 | 59,661    | -         |
|  |            |          | 1,769,674 | 1,757,154 |

---

26

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal<br>Amount,<br>Shares, Units<br>or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost      | Fair Value |
|--|--|---------------------|-----------|------------|
| <b>Terra Renewal LLC</b>   |  |                     |           |            |
| A provider of wastewater residual management and required environmental reporting, permitting, nutrient management planning and record keeping to companies involved in poultry and food processing. |  |                     |           |            |
| 12% Senior Subordinated Note due 2014 (D)  | \$ 664,062   | *                   | \$644,369 | \$-        |
| 7.44% Term Note due 2013 (C)   | \$ 711,001   | 08/10/12            | 711,001   | 604,351    |
| 9.25% Term Note due 2013 (C)   | \$ 1,568   | 08/31/12            | 1,568     | 1,332      |
| Common Stock Class B   | 32 shs.  | *                   | 4,448     | -          |
| Limited Partnership Interest of<br>Saw Mill Capital Fund V, LLC (B)  | 2.27% int.   | **                  | 117,464   | -          |
| Warrant, exercisable until 2016, to purchase<br>common stock at \$.01 per share (B)  | 41 shs.  | 04/28/06            | 33,738    | -          |
| * 04/28/06 and 09/13/06.   |  |                     | 1,512,588 | 605,683    |
| **03/01/05 and 10/10/08.   |  |                     |           |            |
| <b>Torrent Group Holdings, Inc.</b>  |  |                     |           |            |
| A contractor specializing in the sales and installation of engineered drywells for the retention and filtration of stormwater and nuisance water flow.   |  |                     |           |            |
| 14.5% Senior Subordinated Note due<br>2014 (D)   | \$ 1,300,003   | 10/26/07            | 1,136,835 | 1,253,492  |
| Series B Preferred Stock (B)   | 97 shs.  | 03/31/10            | -         | 144,906    |
| Common Stock (B)   | 273 shs.   | 03/31/10            | 219,203   | -          |
|  |  |                     | 1,356,038 | 1,398,398  |
| <b>Transpac Holding Company</b>  |  |                     |           |            |
| A designer, importer, and wholesaler of home décor and seasonal gift products.   |  |                     |           |            |
| 12% Senior Subordinated Note due 2015  | \$ 938,651   | 10/31/07            | 896,489   | 895,908    |
| Common Stock (B)   | 110 shs.   | 10/31/07            | 110,430   | 5,670      |
| Warrant, exercisable until 2015, to<br>purchase<br>common stock at \$.01 per share (B)   | 50 shs.  | 10/31/07            | 46,380    | 2,560      |
|  |  |                     | 1,053,299 | 904,138    |
| <b>Tranzonic Companies (The)</b>   |  |                     |           |            |
| A producer of commercial and industrial supplies, such as safety products, janitorial supplies, work apparel, washroom and restroom supplies and sanitary care products.                             |  |                     |           |            |
| 13% Senior Subordinated Note due 2015  | \$ 542,400   | 02/05/98            | 541,643   | 542,400    |
| Common Stock (B)   | 315 shs.   | 02/04/98            | 315,000   | 612,900    |
| Warrant, exercisable until 2015, to purchase<br>common stock at \$.01 per share (B)  | 222 shs.   | 02/05/98            | 184,416   | 431,949    |

1,041,059 1,587,249

---

27

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal<br>Amount,<br>Shares, Units<br>or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost               | Fair Value         |
|---|--|---------------------|--------------------|--------------------|
| <b>Truck Bodies &amp; Equipment International</b>   |  |                     |                    |                    |
| A designer and manufacturer of accessories for heavy and medium duty trucks, primarily dump bodies, hoists, various forms of flat-bed bodies, landscape bodies and other accessories. |  |                     |                    |                    |
| <b>12% Senior Subordinated Note</b>   |  |                     |                    |                    |
| due 2013  | \$ 1,222,698   | *                   | \$ 1,178,972       | \$1,222,698        |
| Preferred Stock Series B (B)  | 128 shs.   | 10/20/08            | 127,677            | 90,617             |
| Common Stock (B)  | 393 shs.   | *                   | 423,985            | -                  |
| Warrant, exercisable until 2014,<br>to purchase<br>common stock at \$.02 per share<br>(B)   | 81 shs.  | *                   | 84,650             | -                  |
| Warrant, exercisable until 2018,<br>to purchase<br>common stock at \$.01 per share<br>(B)   | 558 shs.   | 10/20/08            | -                  | -                  |
| * 07/19/05 and 12/22/05.  |  |                     | 1,815,284          | 1,313,315          |
| <b>TruStile Doors, Inc.</b>   |  |                     |                    |                    |
| A manufacturer and distributor<br>of interior doors.  |  |                     |                    |                    |
| Limited Liability Company Unit<br>(B)   | 5,888 uts.   | 02/28/11            | 109,375            | 196,600            |
| Warrant, exercisable until 2016,<br>to purchase<br>common stock at \$.01 per share<br>(B)   | 3,060 shs.   | 04/11/03            | 36,032<br>145,407  | 23,969<br>220,569  |
| <b>U-Line Corporation</b>   |  |                     |                    |                    |
| A manufacturer of high-end, built-in, undercounter ice making, wine storage and refrigeration<br>appliances.  |  |                     |                    |                    |
| Common Stock (B)  | 96 shs.  | 04/30/04            | 96,400             | 108,713            |
| Warrant, exercisable until 2016,<br>to purchase<br>common stock at \$.01 per share<br>(B)   | 122 shs.   | 04/30/04            | 112,106<br>208,506 | 137,582<br>246,295 |
| <b>U M A Enterprises, Inc.</b>  |  |                     |                    |                    |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

An importer and wholesaler of  
home décor products.

|                                 |          |          |         |         |
|---------------------------------|----------|----------|---------|---------|
| Convertible Preferred Stock (B) | 470 shs. | 02/08/08 | 469,565 | 753,022 |
|---------------------------------|----------|----------|---------|---------|

Visioneering, Inc.

A designer and manufacturer of tooling and fixtures for the  
aerospace industry.

10.5% Senior Secured Term

|               |            |          |         |         |
|---------------|------------|----------|---------|---------|
| Loan due 2013 | \$ 414,706 | 05/17/07 | 414,287 | 415,166 |
|---------------|------------|----------|---------|---------|

13% Senior Subordinated Note  
due 2014

|  |            |          |         |         |
|--|------------|----------|---------|---------|
|  | \$ 370,588 | 05/17/07 | 360,981 | 370,588 |
|--|------------|----------|---------|---------|

18% PIK Convertible Preferred  
Stock (B)

|  |             |          |        |        |
|--|-------------|----------|--------|--------|
|  | 21,361 shs. | 03/13/09 | 41,440 | 69,594 |
|--|-------------|----------|--------|--------|

Common Stock (B)

|  |             |          |        |        |
|--|-------------|----------|--------|--------|
|  | 70,588 shs. | 05/17/07 | 70,588 | 57,112 |
|--|-------------|----------|--------|--------|

Warrant, exercisable until 2014,  
to purchase

common stock at \$.01 per share  
(B)

|  |             |          |         |         |
|--|-------------|----------|---------|---------|
|  | 20,003 shs. | 05/17/07 | 31,460  | 16,184  |
|  |             |          | 918,756 | 928,644 |

---

28

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A) (Continued)   |              | Principal<br>Amount,<br>Shares, Units<br>or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost       | Fair Value |
|--|--------------|--|---------------------|------------|------------|
| <b>Vitex Packaging Group, Inc.</b>   |              |  |                     |            |            |
| A manufacturer of specialty packaging, primarily envelopes and tags used on tea bags.                                  |              |  |                     |            |            |
| Class B Unit (B)   | 406,525 uts. |  | 10/29/09            | \$ 184,266 | \$ -       |
| Class C Unit (B)   | 450,000 uts. |  | 10/29/09            | 413,244    | 391,157    |
| <b>Limited Liability Company</b>   |              |  |                     |            |            |
| Unit Class A (B)   | 383,011 uts. | *  |                     | 229,353    | -          |
| <b>Limited Liability Company</b>   |              |  |                     |            |            |
| Unit Class B (B)   | 96,848 uts.  |  | 07/19/04            | 96,848     | -          |
| * 07/19/04 and 10/29/09.   |              |  |                     | 923,711    | 391,157    |
| <b>Wellborn Forest Holding Company</b>   |              |  |                     |            |            |
| A manufacturer of semi-custom kitchen and bath cabinetry.  |              |  |                     |            |            |
| 12.13% Senior Subordinated   |              |  |                     |            |            |
| Note due 2016  | \$ 911,250   |  | 11/30/06            | 867,531    | 820,125    |
| Common Stock (B)   | 101 shs.     |  | 11/30/06            | 101,250    | -          |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)                                       |              |  |                     |            |            |
|  | 51 shs.      |  | 11/30/06            | 45,790     | -          |
|  |              |  |                     | 1,014,571  | 820,125    |
| <b>Wheaton Holding Corporation</b>   |              |  |                     |            |            |
| A distributor and manufacturer of laboratory supply products and packaging.  |              |  |                     |            |            |
| Preferred Stock Series B (B)   | 703 shs.     |  | 06/08/10            | 70,308     | -          |
| Common Stock (B)   | 353 shs.     |  | 06/08/10            | 353        | -          |
|  |              |  |                     | 70,661     | -          |
| <b>Whitcraft Holdings, Inc.</b>  |              |  |                     |            |            |
| A leading independent manufacturer of precision formed, machined, and fabricated flight-critical aerospace components. |              |  |                     |            |            |
| 12% Senior Subordinated  |              |  |                     |            |            |
| Note due 2018  | \$ 794,521   |  | 12/16/10            | 741,751    | 802,466    |
| Common Stock (B)   | 205 shs.     |  | 12/16/10            | 205,480    | 149,347    |
| Warrant, exercisable until 2018, to purchase   |              |  |                     |            |            |
|  | 55 shs.      |  | 12/16/10            | 49,334     | 40,135     |



Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|  |             |          |                |               |
|--|-------------|----------|----------------|---------------|
| common stock at \$.02 per share (B)  |             |          | 996,565        | 991,948       |
| Workplace Media Holding Company  |             |          |                |               |
| A direct marketer specializing in providing advertisers with access to consumers in the workplace.                     |             |          |                |               |
| 13% Senior Subordinated Note due 2015 (D)  | \$ 654,247  | 05/14/07 | 601,454        | -             |
| Limited Partnership Interest (B)   | 12.26% int. | 05/14/07 | 61,308         | -             |
| Warrant, exercisable until 2015, to purchase common stock at \$.02 per share (B)                                       | 47 shs.     | 05/14/07 | 44,186         | -             |
|  |             |          | 706,948        | -             |
| WP Supply Holding Corporation  |             |          |                |               |
| A distributor of fresh fruits and vegetables to grocery wholesalers and foodservice distributors in the upper Midwest. |             |          |                |               |
| 14.5% Senior Subordinated Note due 2018  | \$ 880,429  | 11/03/11 | 865,585        | 880,762       |
| Common Stock (B)   | 1,500 shs.  | 11/03/11 | 150,000        | 140,598       |
|  |             |          | 1,015,585      | 1,021,360     |
| Total Private Placement Investments (E)  |             |          | \$ 103,262,162 | \$ 97,006,412 |

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

|  | Interest | Due      | Shares or<br>Principal |            | Market     |
|--|----------|----------|------------------------|------------|------------|
| Corporate Restricted<br>Securities: (A)<br>(Continued) | Rate     | Date     | Amount                 | Cost       | Value      |
| Rule 144A Securities -<br>5.23%:                       |          |          |                        |            |            |
| Bonds 5.23%  |          |          |                        |            |            |
| ArcelorMittal  | 6.125 %  | 06/01/18 | \$ 500,000             | \$ 513,750 | \$ 540,000 |
| Calumet Specialty<br>Products Partners L.P.            | 9.625    | 08/01/20 | 500,000                | 491,518    | 563,750    |
| Cornerstone Chemical<br>Company                        | 9.375    | 03/15/18 | 375,000                | 385,313    | 382,500    |
| First Data Corporation                                 | 7.375    | 06/15/19 | 250,000                | 250,000    | 265,938    |
| FMG Resources  | 7.000    | 11/01/15 | 250,000                | 256,500    | 261,875    |
| Hilcorp Energy Company                                 | 7.625    | 04/15/21 | 325,000                | 311,967    | 357,500    |
| J.B. Poindexter Co., Inc.                              | 9.000    | 04/01/22 | 500,000                | 500,000    | 522,500    |
| Lear Corporation                                       | 4.750    | 01/15/23 | 375,000                | 367,500    | 365,625    |
| Lennar Corporation                                     | 4.750    | 11/15/22 | 375,000                | 369,375    | 367,500    |
| MEG Energy Corporation                                 | 6.375    | 01/30/23 | 500,000                | 500,000    | 520,000    |
| Neustar Inc.   | 4.500    | 01/15/23 | 375,000                | 362,813    | 358,125    |
| Penske Corporation                                     | 4.875    | 07/11/22 | 500,000                | 497,989    | 527,280    |
| Samson Investment<br>Company                           | 9.750    | 02/15/20 | 350,000                | 344,313    | 371,875    |
| ServiceMaster Company                                  | 7.000    | 08/15/20 | 500,000                | 500,000    | 517,500    |
| Tronox Finance LLC                                     | 6.375    | 08/15/20 | 375,000                | 365,625    | 363,750    |
| Valeant Pharmaceuticals<br>International               | 7.000    | 10/01/20 | 250,000                | 250,784    | 269,375    |
| Welltec A/S  | 8.000    | 02/01/19 | 375,000                | 368,262    | 409,688    |
| Total Bonds  |          |          |                        | 6,635,709  | 6,964,781  |
| Convertible Preferred<br>Stock - 0.00%                 |          |          |                        |            |            |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|                                       |     |                |                |
|---------------------------------------|-----|----------------|----------------|
| ETEX Corporation (B)                  | 194 | -              | -              |
| Total Convertible Preferred Stock     |     | -              | -              |
| Preferred Stock - 0.00%               |     |                |                |
| TherOX, Inc. (B)                      | 26  | -              | -              |
| Total Preferred Stock                 |     | -              | -              |
| Common Stock - 0.00%                  |     |                |                |
| Touchstone Health Partnership (B)     | 292 | -              | -              |
| Total Common Stock                    |     | -              | -              |
| Total Rule 144A Securities            |     | 6,635,709      | 6,964,781      |
| Total Corporate Restricted Securities |     | \$ 109,897,871 | \$ 103,971,193 |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

|  | Interest |   | Due      | Principal  |            | Market     |
|--|----------|---|----------|------------|------------|------------|
| Corporate Public Securities -<br>21.04%: (A) | Rate     |   | Date     | Amount     | Cost       | Value      |
| Bonds -21.02%                                |          |   |          |            |            |            |
| Accuride Corp                                | 9.500    | % | 08/01/18 | \$ 500,000 | \$ 482,874 | \$ 511,250 |
| Alcoa, Inc.                                  | 6.150    |   | 08/15/20 | 600,000    | 628,955    | 653,254    |
| Alere, Inc.                                  | 9.000    |   | 05/15/16 | 300,000    | 313,936    | 315,375    |
| Alliant Techsystems Inc.                     | 6.875    |   | 09/15/20 | 500,000    | 536,186    | 538,750    |
| Ally Financial, Inc.                         | 5.500    |   | 02/15/17 | 750,000    | 764,413    | 811,307    |
| Alta Mesa Financial<br>Services              | 9.625    |   | 10/15/18 | 750,000    | 727,983    | 791,250    |
| Anglogold Holdings PLC                       | 5.375    |   | 04/15/20 | 600,000    | 605,123    | 635,086    |
| Avis Budget Car Rental                       | 9.750    |   | 03/15/20 | 375,000    | 375,000    | 442,504    |
| B E Aerospace, Inc.                          | 6.875    |   | 10/01/20 | 250,000    | 256,516    | 276,563    |
| Bank of America<br>Corporation               | 5.875    |   | 01/05/21 | 600,000    | 622,603    | 708,570    |
| Bill Barrett Corporation                     | 7.000    |   | 10/15/22 | 500,000    | 479,800    | 523,750    |
| Brunswick Corporation                        | 7.125    |   | 08/01/27 | 500,000    | 504,881    | 526,250    |
| C R H America, Inc.                          | 5.300    |   | 10/15/13 | 500,000    | 489,257    | 511,517    |
| Calumet Specialty Products<br>Partners L.P.  | 9.375    |   | 05/01/19 | 375,000    | 351,561    | 420,000    |
| CCO Holdings Capital<br>Corporation          | 5.250    |   | 09/30/22 | 500,000    | 495,211    | 491,250    |
| Centurytel, Inc.                             | 5.000    |   | 02/15/15 | 500,000    | 506,679    | 527,519    |
| CHC Helicopter SA                            | 9.250    |   | 10/15/20 | 1,000,000  | 930,858    | 1,063,125  |
| CIT Group, Inc.                              | 5.000    |   | 08/15/22 | 500,000    | 500,000    | 533,894    |
| Citigroup, Inc.                              | 5.500    |   | 04/11/13 | 500,000    | 499,552    | 500,583    |
| Continental Resources, Inc.                  | 5.000    |   | 09/15/22 | 500,000    | 511,283    | 531,250    |
| DaVita, Inc.                                 | 5.750    |   | 08/15/22 | 500,000    | 500,000    | 519,375    |
| Duke Realty Limited<br>Partnership           | 3.875    |   | 10/15/22 | 500,000    | 508,419    | 513,203    |
| EnSCO PLC                                    | 3.250    |   | 03/15/16 | 600,000    | 598,589    | 639,073    |
| EP Energy/EP Finance, Inc.                   | 9.375    |   | 05/01/20 | 500,000    | 508,109    | 577,500    |
| Equifax, Inc.                                | 4.450    |   | 12/01/14 | 500,000    | 506,853    | 526,419    |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|                                      |       |          |         |         |         |
|--------------------------------------|-------|----------|---------|---------|---------|
| GATX Corporation                     | 4.750 | 05/15/15 | 500,000 | 502,411 | 530,533 |
| General Electric Capital Corporation | 5.500 | 01/08/20 | 500,000 | 498,549 | 592,484 |
| Goldman Sachs Group, Inc.            | 4.750 | 07/15/13 | 500,000 | 494,083 | 505,999 |
| Headwaters, Inc.                     | 7.625 | 04/01/19 | 305,000 | 305,133 | 326,350 |
| Health Management Association        | 6.125 | 04/15/16 | 250,000 | 255,930 | 274,375 |
| HealthSouth Corporation              | 7.750 | 09/15/22 | 450,000 | 451,023 | 489,375 |
| Hertz Corporation                    | 6.750 | 04/15/19 | 220,000 | 217,050 | 240,075 |
| International Game Technology        | 7.500 | 06/15/19 | 500,000 | 499,802 | 596,878 |
| Jabil Circuit, Inc.                  | 4.700 | 09/15/22 | 500,000 | 499,962 | 498,125 |
| Johnson Controls, Inc.               | 5.500 | 01/15/16 | 500,000 | 451,497 | 558,612 |
| Kraft Foods, Inc.                    | 5.375 | 02/10/20 | 500,000 | 512,913 | 594,889 |
| Masco Corporation                    | 7.125 | 03/15/20 | 350,000 | 349,997 | 408,596 |
| Morgan Stanley                       | 5.500 | 01/26/20 | 500,000 | 498,000 | 572,878 |

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Public Securities<br>(A)   | Interest<br>Rate | Due<br>Date | Principal<br>Amount | Cost       | Market<br>Value |
|--------------------------------------|------------------|-------------|---------------------|------------|-----------------|
| NBC Universal Media<br>LLC           | 5.150 %          | 04/30/20    | \$ 500,000          | \$ 499,453 | \$ 592,581      |
| Nexeo Solutions LLC                  | 8.375            | 03/01/18    | 20,000              | 20,000     | 19,500          |
| Niska Gas Storage Partners<br>LLC    | 8.875            | 03/15/18    | 500,000             | 505,638    | 521,250         |
| Omnova Solutions, Inc.               | 7.875            | 11/01/18    | 750,000             | 763,587    | 798,750         |
| Peabody Energy<br>Corporation        | 6.000            | 11/15/18    | 500,000             | 500,565    | 531,250         |
| Perry Ellis International,<br>Inc.   | 7.875            | 04/01/19    | 375,000             | 371,583    | 393,750         |
| Precision Drilling<br>Corporation    | 6.625            | 11/15/20    | 250,000             | 257,295    | 266,875         |
| Qwest Diagnostic, Inc.               | 4.750            | 01/30/20    | 500,000             | 499,019    | 547,190         |
| Sprint Nextel Corporation            | 6.000            | 12/01/16    | 500,000             | 510,954    | 542,500         |
| Steelcase, Inc.                      | 6.375            | 02/15/21    | 500,000             | 507,314    | 552,797         |
| Tech Data Corporation                | 3.750            | 09/21/17    | 500,000             | 506,745    | 520,771         |
| Thermadyne Holdings<br>Corporation   | 9.000            | 12/15/17    | 250,000             | 263,999    | 272,500         |
| Time Warner Cable, Inc.              | 5.000            | 02/01/20    | 500,000             | 492,460    | 568,945         |
| Tyson Foods, Inc.                    | 4.500            | 06/15/22    | 500,000             | 515,795    | 544,063         |
| Unit Corporation                     | 6.625            | 05/15/21    | 500,000             | 494,113    | 523,750         |
| Weatherford International<br>Limited | 4.500            | 04/15/22    | 500,000             | 520,669    | 515,050         |
| Total Bonds                          |                  |             |                     | 25,970,180 | 27,989,308      |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Public Securities (A)   | Interest Rate        | Due Date | Shares           | Cost           | Market Value   |
|-----------------------------------|----------------------|----------|------------------|----------------|----------------|
| Common Stock - 0.02%              |                      |          |                  |                |                |
| Intrepid Potash, Inc. (B)         |                      |          | 185              | \$ 5,920       | \$ 3,471       |
| Nortek, Inc. (B)                  |                      |          | 100              | 1              | 7,106          |
| Rue21, Inc. (B)                   |                      |          | 350              | 6,650          | 10,287         |
| Total Common Stock                |                      |          |                  | 12,571         | 20,864         |
| Total Corporate Public Securities |                      |          |                  | \$ 25,982,751  | \$ 28,010,172  |
| Short-Term Securities:            | Interest Rate/Yield^ | Due Date | Principal Amount | Cost           | Market Value   |
| Commercial Paper -7.89%           |                      |          |                  |                |                |
| Bacardi Ltd                       | 0.310 %              | 04/10/13 | \$ 2,250,000     | \$ 2,249,826   | \$ 2,249,826   |
| Enbridge Energy Partners          | 0.340                | 04/05/13 | 2,250,000        | 2,249,915      | 2,249,915      |
| Oneok, Inc.                       | 0.300                | 04/08/13 | 2,000,000        | 1,999,883      | 1,999,883      |
| Volvo Group Treasury NA           | 0.300                | 04/10/13 | 2,000,000        | 1,999,850      | 1,999,850      |
| Westar Energy Inc.                | 0.320                | 04/11/13 | 2,000,000        | 1,999,822      | 1,999,822      |
| Total Short-Term Securities       |                      |          |                  | \$ 10,499,296  | \$ 10,499,296  |
| Total Investments                 | 107.02 %             |          |                  | \$ 146,379,918 | \$ 142,480,661 |
| Other Assets                      | 6.58                 |          |                  |                | 8,762,575      |
| Liabilities                       | (13.60 )             |          |                  |                | (18,105,675)   |
| Total Net Assets                  | 100.00 %             |          |                  |                | \$ 133,137,561 |

- (A) In each of the convertible note, warrant, and common stock investments, the issuer has agreed to provide certain registration rights.
- (B) Non-income producing security.
- (C) Variable rate security; rate indicated is as of March 31, 2013.
- (D) Defaulted security; interest not accrued.
- (E) Illiquid security. As of March 31, 2013, the values of these securities amounted to \$97,006,412 or 72.86% of net assets.

^ Effective yield at purchase

PIK Payment-in-kind



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Industry Classification:                        | Fair Value/<br>Market Value | Fair Value/<br>Market Value |
|---|-----------------------------|-----------------------------|
| <b>AEROSPACE - 2.95%</b>                        |                             |                             |
| A E Company, Inc.                               | \$ 605,376                  |                             |
| Alliant Techsystems Inc.                        | 538,750                     |                             |
| B E Aerospace, Inc.                             | 276,563                     |                             |
| Merex Holding Corporation                       | 588,938                     |                             |
| Visioneering, Inc.                              | 928,644                     |                             |
| Whitcraft Holdings, Inc.                        | 991,948                     |                             |
|   | 3,930,219                   |                             |
| <b>AUTOMOBILE - 5.58%</b>                       |                             |                             |
| Accuride Corp                                   | 511,250                     |                             |
| Avis Budget Car Rental                          | 442,504                     |                             |
| DPL Holding Corporation                         | 1,585,182                   |                             |
| Ideal Tridon Holdings, Inc.                     | 129,791                     |                             |
| J A C Holding Enterprises, Inc.                 | 960,501                     |                             |
| Jason Partners Holdings LLC                     | 25,511                      |                             |
| Johnson Controls, Inc.                          | 558,612                     |                             |
| K & N Parent, Inc.                              | 1,104,853                   |                             |
| Lear Corporation                                | 365,625                     |                             |
| Ontario Drive & Gear Ltd.                       | 887,170                     |                             |
| Penske Corporation                              | 527,280                     |                             |
| Qualis Automotive LLC                           | 330,325                     |                             |
|   | 7,428,604                   |                             |
| <b>BEVERAGE, DRUG &amp; FOOD - 8.79%</b>        |                             |                             |
| 1492 Acquisition LLC                            | 1,242,282                   |                             |
| Bacardi Ltd                                     | 2,249,826                   |                             |
| Eatem Holding Company                           | 1,094,444                   |                             |
| F F C Holding Corporation                       | 1,128,875                   |                             |
| Golden County Foods Holding, Inc.               | -                           |                             |
| Hospitality Mints Holding Company               | 1,122,524                   |                             |
| JMH Investors LLC                               | 1,227,282                   |                             |
| Kraft Foods, Inc.                               | 594,889                     |                             |
| Snacks Parent Corporation                       | 1,144,571                   |                             |
| Spartan Foods Holding Company                   | 1,185,999                   |                             |
| Specialty Commodities, Inc.                     | 163,695                     |                             |
| <b>BROADCASTING &amp; ENTERTAINMENT - 0.87%</b> |                             |                             |
| HOP Entertainment LLC                           | \$ -                        |                             |
| NBC Universal Media LLC                         | 592,581                     |                             |
| Time Warner Cable, Inc.                         | 568,945                     |                             |
| Sundance Investco LLC                           | -                           |                             |
| Workplace Media Holding Company                 | -                           |                             |
|   | 1,161,526                   |                             |
| <b>BUILDINGS &amp; REAL ESTATE - 1.97%</b>      |                             |                             |
| ACP Cascade Holdings LLC                        | -                           |                             |
| Duke Realty Limited Partnership                 | 513,203                     |                             |
| Lennar Corporation                              | 367,500                     |                             |
| Masco Corporation                               | 408,596                     |                             |
| Sunrise Windows Holding Company                 | 1,113,967                   |                             |
| TruStile Doors, Inc.                            | 220,569                     |                             |
|   | 2,623,835                   |                             |
| <b>CHEMICAL, PLASTICS &amp; RUBBER - 2.03%</b>  |                             |                             |
| Capital Specialty Plastics, Inc.                | 515,888                     |                             |
| Cornerstone Chemical Company                    | 382,500                     |                             |
| Nicoat Acquisitions LLC                         | 644,708                     |                             |
| Omnova Solutions, Inc.                          | 798,750                     |                             |
| Tronox Finance LLC                              | 363,750                     |                             |
|   | 2,705,596                   |                             |
| <b>CONSUMER PRODUCTS - 9.25%</b>                |                             |                             |
| AMS Holding LLC                                 | 1,249,126                   |                             |
| Baby Jogger Holdings LLC                        | 1,086,828                   |                             |
| Bravo Sports Holding Corporation                | 1,260,224                   |                             |
| Custom Engineered Wheels, Inc.                  | 968,367                     |                             |
| gloProfessional Holdings, Inc.                  | 1,242,279                   |                             |
| Handi Quilter Holding Company                   | 599,961                     |                             |
| K N B Holdings Corporation                      | 2,311,177                   |                             |
| Manhattan Beachwear Holding Company             | 745,098                     |                             |
| Perry Ellis International, Inc.                 | 393,750                     |                             |
| R A J Manufacturing Holdings LLC                | 876,541                     |                             |
| Tranzonic Companies (The)                       | 1,587,249                   |                             |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|                   |            |            |
|-------------------|------------|------------|
| Tyson Foods, Inc. | 544,063    | 12,320,600 |
|                   | 11,698,450 |            |

---

34

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Industry Classification: (Continued)               | Fair Value/<br>Market Value | Fair Value/<br>Market Value          |
|--|-----------------------------|--------------------------------------|
|  |                             | DIVERSIFIED/CONGLOMERATE, SERVICE -  |
| CONTAINERS, PACKAGING & GLASS - 4.10%              |                             | 9.47%                                |
| Flutes, Inc.                                       | \$ 498,551                  | A S C Group, Inc. \$ 146,513         |
| P K C Holding Corporation                          | 1,927,386                   | A W X Holdings Corporation 315,000   |
|  |                             | Advanced Technologies                |
| P P T Holdings LLC                                 | 1,110,602                   | Holdings 791,094                     |
| Paradigm Packaging, Inc.                           | 908,747                     | Anglogold Holdings PLC 635,086       |
|  |                             | Apex Analytix Holding                |
| Rose City Holding Company                          | 619,645                     | Corporation 1,285,178                |
|  |                             | Bank of America                      |
| Vitex Packaging Group, Inc.                        | 391,157                     | Corporation 708,570                  |
|  | 5,456,088                   | C R H America, Inc. 511,517          |
|  |                             | Church Services Holding              |
| DISTRIBUTION - 4.66%                               |                             | Company 545,039                      |
|  |                             | Clough, Harbour and                  |
| Blue Wave Products, Inc.                           | 697,790                     | Associates 203,462                   |
| BP SCI LLC   | 1,240,421                   | Crane Rental Corporation 1,293,208   |
| Duncan Systems, Inc.                               | 594,400                     | ELT Holding Company 1,050,202        |
| RM Holding Company                                 | 581,640                     | Equifax, Inc. 526,419                |
| Signature Systems Holding Company                  | 825,691                     | HVAC Holdings, Inc. 1,240,601        |
|  |                             | Insurance Claims                     |
| Stag Parkway Holding Company                       | 1,237,530                   | Management, Inc. 167,518             |
|  |                             | Mail Communications                  |
| WP Supply Holding Corporation                      | 1,021,360                   | Group, Inc. 306,747                  |
|  | 6,198,832                   | Nexeo Solutions LLC 19,500           |
|  |                             | Northwest Mailing Services,          |
| DIVERSIFIED/CONGLOMERATE,<br>MANUFACTURING - 9.35% |                             | Inc. 1,573,683                       |
|  |                             | Pearlman Enterprises, Inc. -         |
|  |                             | Safety Infrastructure                |
| A H C Holding Company, Inc.                        | 150,975                     | Solutions 776,906                    |
| Advanced Manufacturing Enterprises<br>LLC          | 1,208,140                   | ServiceMaster Company 517,500        |
| Arrow Tru-Line Holdings, Inc.                      | 899,921                     | 12,613,743                           |
| C D N T, Inc.                                      | 664,301                     | ELECTRONICS - 1.87%                  |
| F G I Equity LLC                                   | 301,340                     | Connecticut Electric, Inc. 1,470,511 |
| G C Holdings                                       | 1,558,188                   | Jabil Circuit, Inc. 498,125          |
| J.B. Poindexter Co., Inc.                          | 522,500                     | Tech Data Corporation 520,771        |
| K P H I Holdings, Inc.                             | 265,782                     | 2,489,407                            |
|  |                             | FINANCIAL SERVICES -                 |
| K P I Holdings, Inc.                               | 1,583,468                   | 6.13%                                |
| LPC Holding Company                                | 1,319,571                   | Ally Financial, Inc. 811,307         |
| MEGTEC Holdings, Inc.                              | 391,119                     | Alta Mesa Financial Services 791,250 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|   |            |   |           |
|---|------------|---|-----------|
| Nortek, Inc.                              | 7,106      | CIT Group, Inc.                         | 533,894   |
| O E C Holding Corporation                 | 459,731    | Citigroup, Inc.                         | 500,583   |
| Postle Aluminum Company LLC               | 1,799,919  | GATX Corporation                        | 530,533   |
| Truck Bodies & Equipment<br>International | 1,313,315  | General Electric Capital<br>Corporation | 592,484   |
|   | 12,445,376 | Goldman Sachs Group, Inc.               | 505,999   |
|   |            | Morgan Stanley                          | 572,878   |
|   |            | REVSpring, Inc.                         | 1,319,431 |
|   |            | Volvo Group Treasury NA                 | 1,999,850 |
|   |            |   | 8,158,209 |

---

35

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Industry Classification:<br>(Continued)  | Fair Value/<br>Market Value |   | Fair Value/<br>Market Value |
|--|-----------------------------|---|-----------------------------|
| HEALTHCARE, EDUCATION & CHILDCARE - 7.64%  |                             | MACHINERY - 4.79%   |                             |
| Alere, Inc.  | \$ 315,375                  | ABC Industries, Inc.  | \$ 608,746                  |
| American Hospice<br>Management Holding LLC   | 2,093,028                   | Arch Global Precision LLC   | 1,137,651                   |
| CHG Alternative Education<br>Holding Company                                       | 1,014,665                   | E S P Holdco, Inc.  | 1,495,119                   |
| DaVita, Inc.   | 519,375                     | M V I Holding, Inc.   | 132,257                     |
| GD Dental Services LLC   | 1,241,551                   | Motion Controls Holdings  | 1,025,966                   |
| Healthcare Direct Holding<br>Company   | 714,102                     | NetShape Technologies, Inc.<br>Pacific Consolidated Holdings<br>LLC | 1,259,329<br>42,187         |
| HealthSouth Corporation  | 489,375                     | Thermadyne Holdings<br>Corporation                                  | 272,500                     |
| Marshall Physicians Services<br>LLC  | 500,423                     | Welltec A/S   | 409,688                     |
| Qwest Diagnostic, Inc.   | 547,190                     |   | 6,383,443                   |
| SouthernCare Holdings, Inc.<br>Strata/WLA Holding<br>Corporation                   | 84,970<br>893,726           | MEDICAL DEVICES/BIOTECH<br>- 1.86%                                  |                             |
| Synteract Holdings<br>Corporation  | 1,757,154                   | ETEX Corporation  | -                           |
| Touchstone Health<br>Partnership   | -                           | Health Management Association                                       | 274,375                     |
| Wheaton Holding Corporation  | -                           | MedSystems Holdings LLC   | 764,652                     |
|  | 10,170,934                  | MicroGroup, Inc.  | 225,682                     |
|  |                             | NT Holding Company  | 1,060,545                   |
| HOME & OFFICE FURNISHINGS,<br>HOUSEWARES,<br>AND DURABLE CONSUMER PRODUCTS - 3.70% |                             | Precision Wire Holding Company                                      | 152,100                     |
| Connor Sport Court<br>International, Inc.  | 1,283,051                   | TherOX, Inc.  | -                           |
| H M Holding Company  | -                           |   | 2,477,354                   |
| Home Décor Holding<br>Company  | 360,362                     | MINING, STEEL, IRON & NON-PRECIOUS                                  |                             |
| Monessen Holding<br>Corporation  | -                           | METALS - 1.09%  |                             |
| Steelcase, Inc.  | 552,797                     | Alcoa, Inc.   | 653,254                     |
| Transpac Holding Company   | 904,138                     | FMG Resources   | 261,875                     |
| U-Line Corporation   | 246,295                     | Peabody Energy Corporation  | 531,250                     |
|  |                             |   | 1,446,379                   |
| U M A Enterprises, Inc.  | 753,022                     | NATURAL RESOURCES -<br>2.16%  |                             |
| Wellborn Forest Holding<br>Company   | 820,125                     | ArcelorMittal   | 540,000                     |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

|  |           |                       |           |
|--|-----------|-----------------------|-----------|
|  | 4,919,790 | Headwaters, Inc.      | 326,350   |
|  |           | Intrepid Potash, Inc. | 3,471     |
| LEISURE, AMUSEMENT, ENTERTAINMENT -<br>0.84% |           | Westar Energy Inc.    | 1,999,822 |
| Brunswick Corporation                        | 526,250   |                       | 2,869,643 |
| International Game<br>Technology             | 596,878   |                       |           |
|  | 1,123,128 |                       |           |

---

36

---

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Industry Classification: (Continued)     | Fair Value/<br>Market Value |                                      | Fair Value/<br>Market Value |
|--|-----------------------------|--------------------------------------|-----------------------------|
| OIL & GAS - 10.20%                       |                             | TRANSPORTATION - 2.03%               |                             |
| Bill Barrett Corporation                 | \$ 523,750                  | CHC Helicopter SA                    | \$ 1,063,125                |
| Calumet Specialty Products Partners L.P. | 983,750                     | Hertz Corporation                    | 240,075                     |
| Continental Resources, Inc.              | 531,250                     | MNX Holding Company                  | 1,222,649                   |
| Enbridge Energy Partners                 | 2,249,915                   | NABCO, Inc.                          | 175,461                     |
| Ensco PLC                                | 639,073                     |                                      | 2,701,310                   |
| EP Energy/EP Finance, Inc.               | 577,500                     | WASTE MANAGEMENT / POLLUTION - 1.51% |                             |
| Hilcorp Energy Company                   | 357,500                     | Terra Renewal LLC                    | 605,683                     |
| International Offshore Services LLC      | -                           | Torrent Group Holdings, Inc.         | 1,398,398                   |
| MBWS Ultimate Holdco, Inc.               | 1,783,823                   |                                      | 2,004,081                   |
| MEG Energy Corporation                   | 520,000                     |                                      |                             |
| Niska Gas Storage Partners LLC           | 521,250                     |                                      |                             |
| Oneok, Inc.                              | 1,999,883                   | Total Investments - 107.02%          | \$ 142,480,661              |
| Petroplex Inv Holdings LLC               | 1,214,760                   |                                      |                             |
| Precision Drilling Corporation           | 266,875                     |                                      |                             |
| Samson Investment Company                | 371,875                     |                                      |                             |
| Unit Corporation                         | 523,750                     |                                      |                             |
| Weatherford International Limited        | 515,050                     |                                      |                             |
|  | 13,580,004                  |                                      |                             |
| PHARMACEUTICALS - 0.51%                  |                             |                                      |                             |
| CorePharma LLC                           | 415,944                     |                                      |                             |
| Valeant Pharmaceuticals International    | 269,375                     |                                      |                             |
|  | 685,319                     |                                      |                             |
| RETAIL STORES - 0.01%                    |                             |                                      |                             |
| Rue21, Inc.                              | 10,287                      |                                      |                             |
| TECHNOLOGY - 1.61%                       |                             |                                      |                             |
| First Data Corporation                   | 265,938                     |                                      |                             |
| Sencore Holding Company                  | 289,308                     |                                      |                             |
| Smart Source Holdings LLC                | 1,588,101                   |                                      |                             |
|  | 2,143,347                   |                                      |                             |
| TELECOMMUNICATIONS - 2.05%               |                             |                                      |                             |
| All Current Holding Company              | 815,763                     |                                      |                             |
| CCO Holdings Capital Corporation         | 491,250                     |                                      |                             |
| Centurytel, Inc.                         | 527,519                     |                                      |                             |
| Neustar Inc.                             | 358,125                     |                                      |                             |
| Sprint Nextel Corporation                | 542,500                     |                                      |                             |
|  | 2,735,157                   |                                      |                             |





NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. History

Babson Capital Participation Investors (the “Trust”) was organized as a Massachusetts business trust under the laws of the Commonwealth of Massachusetts pursuant to a Declaration of Trust dated April 7, 1988.

The Trust is a diversified closed-end management investment company. Babson Capital Management LLC (“Babson Capital”), a wholly-owned indirect subsidiary of Massachusetts Mutual Life Insurance Company (“MassMutual”), acts as its investment adviser. The Trust’s investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust’s principal investments are privately placed, below-investment grade, long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. At least half of these investments normally include equity features such as common stock, warrants, conversion rights, or other equity features that provide the Trust with the opportunity to realize capital gains. The Trust will also invest in publicly traded debt securities (including high yield securities), again with an emphasis on those with equity features, and in convertible preferred stocks and, subject to certain limitations, readily marketable equity securities. Below-investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay capital. In addition, the Trust may temporarily invest in high quality, readily marketable securities.

On January 27, 1998, the Board of Trustees authorized the formation of a wholly-owned subsidiary of the Trust (“PI Subsidiary Trust”) for the purpose of holding certain investments. The results of the PI Subsidiary Trust are consolidated in the accompanying financial statements. Footnote 2.D below discusses the Federal tax consequences of the PI Subsidiary Trust.

2. Significant Accounting Policies

The following is a summary of significant accounting policies followed consistently by the Trust in the preparation of its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

those procedures to Babson Capital. Babson Capital has established a Pricing Committee which is responsible for setting the guidelines used in following the procedures adopted by the Trustees ensuring that those guidelines are being followed. Babson Capital considers all relevant factors that are reasonably available, through either public information or information available to Babson Capital, when determining the fair value of a security. The Trustees meet at least once each quarter to approve the value of the Trust’s portfolio securities as of the close of business on the last business day of the preceding quarter. This valuation requires the approval of a majority of the Trustees of the Trust, including a majority of the Trustees who are not interested persons of the Trust or of Babson Capital. In approving valuations, the Trustees will consider reports by Babson Capital analyzing each portfolio security in accordance with the procedures and guidelines referred to above, which include the relevant factors referred to below. Babson Capital has agreed to provide such reports to the Trust at least quarterly. The consolidated financial statements include private placement restricted securities valued at \$97,006,412 (72.86% of net assets) as of March 31, 2013 whose values have been estimated by the Trustees based on the process described above in the absence of readily ascertainable market values. Due to the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Following is a description of valuation methodologies used for assets recorded at fair value.

Corporate Public Securities – Corporate Bonds, Preferred Stocks and Common Stocks

The Trust uses external independent third-party pricing services to determine the fair values of its Corporate Public Securities. At March 31, 2013, 100% of the carrying value of these investments was from external pricing services. In the event that the primary pricing service does not provide a price, the Trust utilizes the pricing provided by a secondary pricing service.

A. Fair Value Measurements:

Under U.S. GAAP, fair value represents the price that should be received to sell an asset (exit price) in an orderly transaction between market participants at the measurement date.

Determination of Fair Value

The determination of the fair value of the Trust's investments is the responsibility of the Trust's Board of Trustees (the "Trustees"). The Trustees have adopted procedures for the valuation of the Trust's securities and has delegated responsibility for applying

Public debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Trust's pricing services use multiple valuation techniques to determine fair value. In instances where significant market activity exists, the pricing services may utilize a market based approach through which quotes from market makers are used to determine fair value. In instances where significant market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon rates, anticipated timing of principal underlying prepayments, collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(Unaudited)

Public equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sales price of that day.

Annually, Babson Capital conducts reviews of the primary pricing vendors to validate that the inputs used in that vendors' pricing process are deemed to be market observable as defined in the standard. While Babson Capital is not provided access to proprietary models of the vendors, the reviews have included on-site walk-throughs of the pricing process, methodologies and control procedures for each asset class and level for which prices are provided. The review also included an examination of the underlying inputs and assumptions for a sample of individual securities across asset classes, credit rating levels and various durations, a process Babson Capital continues to perform annually. In addition, the pricing vendors have an established challenge process in place for all security valuations, which facilitates identification and resolution of prices that fall outside expected ranges. Babson Capital believes that the prices received from the pricing vendors are representative of prices that would be received to sell the assets at the measurement date (exit prices) and are classified appropriately in the hierarchy.

**Corporate Restricted Securities – Corporate Bonds**  
The fair value of certain notes is determined using an internal model that discounts the anticipated cash flows of those notes using a specific discount rate. Changes to that discount rate are driven by changes in general interest rates, probabilities of default and credit adjustments. The discount rate used within the models to discount the future anticipated cash flows is considered a significant unobservable input. Significant increases/(decreases) in the discount rate would result in a significant (decrease)/increase to the notes' fair value.

The fair value of certain distressed notes is based on an enterprise waterfall methodology which is discussed in the equity security valuation section below.

Babson Capital Participation Investors

Both the company's EBITDA and valuation multiple as well as the discount are considered significant unobservable inputs. Significant increases/(decreases) to the company's trailing twelve months EBITDA and/or the valuation multiple would result in significant increases/(decreases) to the equity value.

**Short-Term Securities**

Short-term securities, of sufficient credit quality, with more than sixty days to maturity are valued at fair value, using external independent third-party services. Short-term securities having a maturity of sixty days or less are valued at amortized cost, which approximates fair value.

|                   | Valuation Technique   | Unobservable Inputs       | Range                            | Weighted Average |
|-------------------|-----------------------|---------------------------|----------------------------------|------------------|
| Corporate Bonds   | Discounted Cash Flows | Discount Rate             | 5.9% to 17.7%                    | 11.6%            |
| Equity Securities | Market Approach       | Valuation Multiple        | 3.3x to 10.1x                    | 6.6x             |
|                   |                       | Discount                  | 0% to 24%                        | 5.2%             |
|                   |                       | for lack of marketability |                                  |                  |
|                   |                       | EBITDA                    | \$0.7 million to \$136.0 million | \$19.7 million   |

**Quantitative Information about Level 3 Fair Value Measurements**

The following table represents quantitative information about Level 3 fair value measurements as of March 31, 2013.

**Fair Value Hierarchy**

The Company categorizes its investments measured at fair value in three levels, based on the inputs and assumptions used to determine fair value. These levels are as follows:

**Level 1** – quoted prices in active markets for identical securities

Corporate Restricted Securities – Common Stock, Preferred Stock and Partnerships & LLC’s

The fair value of equity securities is determined using an enterprise waterfall methodology. Under this methodology, the enterprise value of the company is first estimated and that value is then allocated to the company’s outstanding debt and equity securities based on the documented priority of each class of securities in the capital structure. Generally, the waterfall proceeds from senior debt tranches of the capital structure to senior then junior subordinated debt, followed by each class of preferred stock and finally the common stock.

To estimate a company’s enterprise value, the company’s trailing twelve months earnings before interest, taxes, depreciation and amortization (“EBITDA”) is multiplied by a valuation multiple. A discount for lack of marketability is applied to the end result.

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Trust’s own assumptions in determining the fair value of investments)

NOTES TO CONSOLIDATED FINANCIAL  
STATEMENTS (CONTINUED)  
(Unaudited)

The following is a summary of the inputs used to value the Trust's net assets as of March 31, 2013:

| Assets:               | Total          | Level 1   | Level 2       | Level 3       |
|-----------------------|----------------|-----------|---------------|---------------|
| Restricted Securities |                |           |               |               |
| Corporate Bonds       | \$ 81,302,097  | \$ -      | \$ 6,964,781  | \$ 74,337,316 |
| Common Stock - U.S.   | 9,198,773      | -         | -             | 9,198,773     |
| Preferred Stock       | 5,985,222      | -         | -             | 5,985,222     |
| Partnerships and LLCs | 7,485,101      | -         | -             | 7,485,101     |
| Public Securities     |                |           |               |               |
| Corporate Bonds       | 27,989,308     | -         | 27,989,308    | -             |
| Common Stock - U.S.   | 20,864         | 20,864    | -             | -             |
| Short-term Securities | 10,499,296     | -         | 10,499,296    | -             |
| Total                 | \$ 142,480,661 | \$ 20,864 | \$ 45,453,385 | \$ 97,006,412 |

See information disaggregated by security type and industry classification in the Consolidated Schedule of Investments.

Following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

| Assets:               | Beginning balance at 12/31/2012 | Included in earnings | Purchases   | Sales         | Prepayments   | Transfers in and/or out of Level 3 | Ending balance at 03/31/2013 |
|-----------------------|---------------------------------|----------------------|-------------|---------------|---------------|------------------------------------|------------------------------|
| Restricted Securities |                                 |                      |             |               |               |                                    |                              |
| Corporate Bonds       | \$81,060,756                    | \$ 139,123           | \$2,683,082 | \$(1,652,667) | \$(7,892,978) | \$-                                | \$74,337,316                 |
| Common Stock - U.S.   | 7,793,109                       | 1,313,373            | 221,928     | (129,637 )    | -             | -                                  | 9,198,773                    |
| Preferred Stock       | 5,786,187                       | 173,357              | 25,678      | -             | -             | -                                  | 5,985,222                    |
| Partnerships and LLCs | 6,890,276                       | 610,447              | (15,622 )   | -             | -             | -                                  | 7,485,101                    |
|                       | \$101,530,328                   | \$2,236,300          | \$2,915,066 | \$(1,782,304) | \$(7,892,978) | \$-                                | \$97,006,412                 |

There were no transfers into or out of Level 1 or Level 2 assets.

Income, Gains and Losses included in Net Increase in Net Assets resulting from Operations for the period are presented in the following accounts on the Statement of Operations for Level 3 assets:

|  | Net Increase in Net<br>Assets Resulting<br>from Operations | Change in<br>Unrealized Gains &<br>(Losses) in Net<br>Assets from assets<br>still held |
|--|--|--|
| Interest (Amortization)  | \$ 160,557   | -  |
| Net realized gain on<br>investments before taxes                         | \$ 485,486   | -  |
| Net change in unrealized<br>depreciation of investments<br>before taxes. | \$ 1,590,257   | 1,947,527  |

---

40

---

NOTES TO CONSOLIDATED FINANCIAL  
STATEMENTS (CONTINUED)  
(Unaudited)

B. Accounting for Investments:

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis, including the amortization of premiums and accretion of discounts on bonds held using the yield-to-maturity method. The Trust does not accrue income when payment is delinquent and when management believes payment is questionable.

Realized gains and losses on investment transactions and unrealized appreciation and depreciation of investments are reported for financial statement and Federal income tax purposes on the identified cost method.

C. Use of Estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Federal Income Taxes:

The Trust has elected to be taxed as a “regulated investment company” under the Internal Revenue Code, and intends to maintain this qualification and to distribute substantially all of its net taxable income to its shareholders. In any year when net long-term capital gains are realized by the Trust, management, after evaluating the prevailing economic conditions, will recommend that Trustees either designate the net realized long-term gains as undistributed and pay the federal capital gains taxes thereon, or distribute all or a portion of such net gains.

The Trust is taxed as a regulated investment company and is therefore limited as to the amount of non-qualified income that it may receive as the result of operating a trade or business, e.g. the Trust’s pro rata share of income allocable to the Trust by a partnership operating company. The Trust’s violation of this limitation could result in the loss of its status as a

Babson Capital Participation Investors

Subsidiary Trust has incurred income tax expense of \$1,572.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax basis. As of March 31, 2013, the PI Subsidiary Trust has a deferred tax liability of \$604,376.

Beginning with the 2009 annual financial statements, the Trust recognizes a tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority’s widely understood administrative practices and precedents. If this threshold is met, the Trust measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Trust has evaluated and determined that the tax positions did not have a material effect on the Trust’s financial position and results of operations for the three months ended March 31, 2013.

E. Distributions to Shareholders:

The Trust records distributions to shareholders from net investment income and net realized gains, if any, on the ex-dividend date. The Trust’s net investment income dividend is declared four times per year, in April, July, October, and December. The Trust’s net realized capital gain distribution, if any, is declared in December.

3. Investment Advisory and Administrative Services Contract

A. Services:

Under an Investment Advisory and Administrative Services Contract (the “Contract”) with the Trust, Babson Capital has agreed to use its best efforts to present to the Trust a continuing and suitable investment program consistent with the investment objectives and policies of the Trust. Babson Capital represents the Trust in any negotiations with issuers, investment banking firms, securities brokers or dealers and other institutions or investors relating to the Trust’s investments. Under the Contract, Babson Capital also provides administration of

regulated investment company, thereby subjecting all of its net income and capital gains to corporate taxes prior to distribution to its shareholders. The Trust, from time-to-time, identifies investment opportunities in the securities of entities that could cause such trade or business income to be allocable to the Trust. The PI Subsidiary Trust (described in Footnote 1, above) was formed in order to allow investment in such securities without adversely affecting the Trust's status as a regulated investment company.

The PI Subsidiary Trust is not taxed as a regulated investment company. Accordingly, prior to the Trust receiving any distributions from the PI Subsidiary Trust, all of the PI Subsidiary Trust's taxable income and realized gains, including non-qualified income and realized gains, is subject to taxation at prevailing corporate tax rates. As of March 31, 2013, the PI

the day-to-day operations of the Trust and provides the Trust with office space and office equipment, accounting and bookkeeping services, and necessary executive, clerical and secretarial personnel for the performance of the foregoing services.

**B. Fee:**

For its services under the Contract, Babson Capital is paid a quarterly investment advisory fee equal to 0.225% of the value of the Trust's net assets as of the last business day of each fiscal quarter, an amount approximately equivalent to 0.90% on an annual basis. A majority of the Trustees, including a majority of the Trustees who are not interested persons of the Trust or of Babson Capital, approve the valuation of the Trust's net assets as of such day.



NOTES TO CONSOLIDATED FINANCIAL  
STATEMENTS (CONTINUED)  
(Unaudited)

4. Senior Indebtedness

MassMutual holds the Trust's \$15,000,000 Senior Fixed Rate Convertible Note (the "Note") issued by the Trust on December 13, 2011. The Note is due December 13, 2023 and accrues interest at 4.09% per annum. MassMutual, at its option, can convert the principal amount of the Note into common shares. The dollar amount of principal would be converted into an equivalent dollar amount of common shares based upon the average price of the common shares for ten business days prior to the notice of conversion. For the three months ended March 31, 2013, the Trust incurred total interest expense on the Note of \$153,375.

The Trust may redeem the Note, in whole or in part, at the principal amount proposed to be redeemed together with the accrued and unpaid interest thereon through the redemption date plus the Make Whole Premium. The Make Whole Premium equals the excess of (i) the present value of the scheduled payments of principal and interest which the Trust would have paid but for the proposed redemption, discounted at the rate of interest of U.S. Treasury obligations whose maturity approximates that of the Note plus 0.50% over (ii) the principal of the Note proposed to be redeemed.

5. Purchases and Sales of Investments

|                                 | For the three<br>months ended<br>03/31/2013 |  |
|---------------------------------|---|--|
|                                 | Cost of<br>Investments<br>Acquired          | Proceeds<br>from<br>Sales or<br>Maturities |
| Corporate restricted securities | \$ 4,931,549                                | \$ 7,486,673                               |
| Corporate public securities     | -   | 3,344,038                                  |

The aggregate cost of investments is substantially the same for financial reporting and Federal income tax purposes as of March 31, 2013. The net unrealized depreciation of investments for financial reporting and Federal tax purposes as of March 31, 2013 is \$3,899,257 and consists of \$14,247,852 appreciation and \$18,147,109 depreciation.

Net unrealized depreciation of investments on the Statement of Assets and Liabilities reflects the balance net of a deferred tax liability of \$604,376 on net unrealized gains on the PI Subsidiary Trust.

This page intentionally left blank.

---

This page intentionally left blank.

---

This page intentionally left blank.

---

This page intentionally left blank.

---

Members of the Board of Trustees

William J. Barrett

Donald E. Benson\*

Michael H. Brown\*

Donald Glickman

Edward P. Grace III

Robert E. Joyal

Clifford M. Noreen

Susan B. Sweeney

Maleyne M. Syracuse\*

\*Member of the Audit Committee

Officers

Clifford M. Noreen  
Chairman

Michael L. Klofas  
President

James M. Roy  
Vice President & Chief  
Financial Officer

Christopher A. DeFrancis  
Vice President & Secretary

Sean Feeley  
Vice President

Michael P. Hermsen  
Vice President

Richard E. Spencer, II

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

Babson Capital Participation Investors (the "Trust") offers a Dividend Reinvestment and Cash Purchase Plan (the "Plan"). The Plan provides a simple and automatic way for shareholders to add to their holdings in the Trust through the receipt of dividend shares issued by the Trust or through the reinvestment of cash dividends in Trust shares purchased in the open market. The dividends of each shareholder will be automatically reinvested in the Trust by DST Systems, Inc., the Transfer Agent, in accordance with the Plan, unless such shareholder elects not to participate by providing written notice to the Transfer Agent. A shareholder may terminate his or her participation by notifying the Transfer Agent in writing.

Participating shareholders may also make additional contributions to the Plan from their own funds. Such contributions may be made by personal check or other means in an amount not less than \$100 nor more than \$5,000 per quarter. Cash contributions must be received by the Transfer Agent at least five days (but no more than 30 days) before the payment date of a dividend or distribution.

Whenever the Trust declares a dividend payable in cash or shares, the Transfer Agent, acting on behalf of each participating shareholder, will take the dividend in shares only if the net asset value is lower than the market price plus an estimated brokerage commission as of the close of business on the valuation day. The valuation day is the last day preceding the day of dividend payment. When the dividend is to be taken in shares, the number of shares to be received is determined by dividing the cash dividend by the net asset value as of the close of business on the valuation date or, if greater than net asset value, 95% of the closing share price. If the net asset value of the shares is higher than the market value plus an estimated commission, the Transfer Agent, consistent with obtaining the best price and execution, will buy shares on the open market at current prices promptly after the dividend payment date.

The reinvestment of dividends does not, in any way, relieve participating shareholders of any federal, state or local tax. For federal income tax purposes, the amount reportable in respect of a dividend received in newly-issued shares of the Trust will be the fair market value of the shares received, which will be reportable as ordinary income and/or capital gains.

As compensation for its services, the Transfer Agent receives a fee of 5% of any dividend and cash contribution (in no event in excess of \$2.50 per distribution per shareholder.)

Any questions regarding the Plan should be addressed to DST Systems, Inc., Agent for Babson Capital Participation Investors' Dividend Reinvestment and Cash Purchase Plan, P.O. Box 219086, Kansas City, MO 64121-9086.

Vice President

Daniel J. Florence  
Treasurer

John T. Davitt, Jr.  
Comptroller

Melissa M. LaGrant  
Chief Compliance Officer

---



